




Bond Workshop at Indiana State Library on August 14, 2013

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Bond Issues: Managing Public Library Projects, Debt and Tax Rate

Indiana State Library
August 14, 2013



Serving Indiana Libraries as Bond Counsel for over 100 years

It's all about experience.

Jane Herndon is on the board of the Carmel Public Library Drafted Chapter 17. Belvia Gray is a Certified Independent Finance Adviser and Jane is a Bond Counsel. Jane Speaking: Good Afternoon. Belvia and I appreciate of ISL allowing us to present this information. Topics today are roles and description of a financing team, project planning and considerations, different types of bond structures, legal process you would need to go through in order to borrow money; and then the sale of the bonds and post sale activities.

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Discussion Topics

- Roles and Description of Project Finance Team
- Project Planning and Considerations
- Bond Structures
- Legal Processes – Approval of the Bonds
- Sale of the Bonds and Post-Sale Activities

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Learning Outcomes

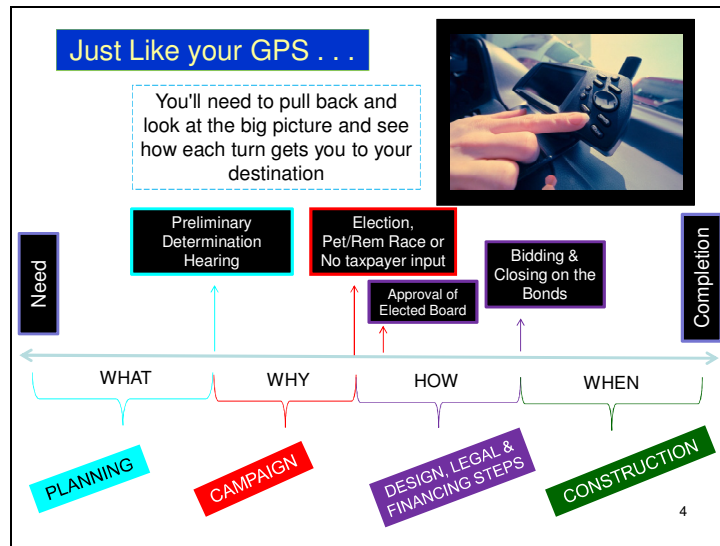
- Participants will be able to identify members of the Project Finance Team (i.e. Working Group) and their roles in the financing
- Participants will be able to define the types of financings available to Libraries
- Participants will be able to develop and discuss a list of considerations when bonds are structured
- Participants will be able to summarize the process to gain approval for bonds

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Because we also work with schools we focus on learning outcomes and some of the things we want you to be able to do after this presentation: You can identify the different team members for a project; you can identify different financing appropriate for your library and community; you will be able to develop and ask good questions of those professionals and to think about the different considerations that might determine a financing; then also to summarize the process to gain approval of a bond issue.

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I like to drive in my car with my GPS. A few months ago we had a Carmel Clay Library Board retreat at Cool Creek Park. There was this beautiful pond. A few of us board members were standing there. Then Wendy Phillips, the Director, started to walk out on top of the water. "She was walking on the water. And you know we thought she was good. I really didn't know she was divine." Nancy, our Assistant Director, leaned over to us and said, "Well, she really knows where the rocks are." So as we go through this is a little bit it is for you to know where the rocks are. This is a hard process. If any of you have been through it recently, it's tough. It has always been a hard process for libraries, but the general assembly has made it even more difficult and frankly fairly political. So as we go through this today we will try to give you some outline to know where those rocks are and to get you over to that island.

This screen of my GPS is designed to show you the beginning of the process to the end of the process.

See on the screen, the far left is about need. You are starting to identify that you might have facility needs. And you see the far right, that's the completion. That's when you can visualize that brand new library, the new addition, the new technology, whatever your needs are about. To get there there's a process. You have to do some planning. There's a planning process for every project a library would pursue. There's the WHY. Could be a campaign, like a referendum campaign. It may be a matter of educating board members. But there is some type of campaign process. HOW: There are some legal and financial steps that you have to go through. WHEN: and then finally the construction.

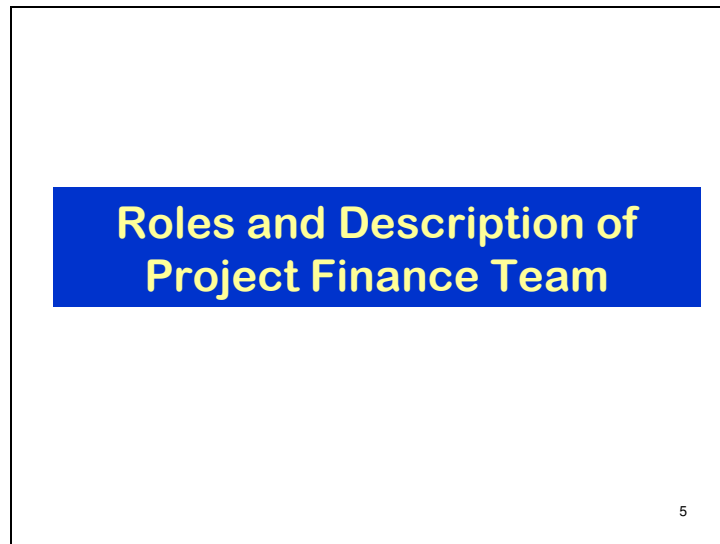
Each project is a little different and depending on the project objective, those different phases will shrink or expand. So let me give you an example. If Loren here has a library that has holes in the roof, water is pouring onto the brand new computers. That is a crisis. And probably you're not going to do a whole lot of time planning. You don't have to have an architect come in and tell you there is a hole in the roof. Computers are getting wrecked. Hopefully, it's a small enough project you won't have to do a campaign and convince your board members or community members that this is needed. And probably some of the legal steps you do are simple and more streamlined. So in some

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projects that planning, that campaigning is really going to shrink and be quick. However, looking at a project that involves abandoning your Carnegie, moving outside of town, putting up a new building, you're talking about some years of this planning phase. Probably a project of that size would require a true campaign with a referendum election.

Each project is going to be a little different. You're going to go through each phase, this continuum, but depending on the project it may be shorter or longer. So we want to give you a little bit overview of where we're going today and a visual of how that works.


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I am going to turn this over to Belvia now. And just to make it very clear, we work with Umbaugh quite a bit on library projects. Belvia is an independent Financial adviser. She's going to tell you a little more detail about each of the roles of the participants in the team.

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The Road to a Project . . .




and you are THE DRIVER.

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“Thank you, Jane. And thank you everyone I see and to those who are listening.” I want to spend some time talking about the financial pieces, but before we get into that. Going back to what Jane was talking about, the road map. We start at the very beginning, getting groups of people together in order to pursue a financing. And because it can sometimes take years for projects to go through that planning phase to construction, it’s really important you are surrounding yourself with people you feel comfortable going through process with because you may be spending time with them over the next several years. And as a library director and part of the decision making team, you are helping in driving this process and you certainly don’t have to go through this alone.


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IT CAN BE A LONG ROAD


You will need your Dashboard with all the Tools



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Jane mentioned how long the process can take. There is a dashboard of tools used in order to make this process smoother.

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You'll need some Keys

Cast of Characters
– AKA the
"Professionals"

- These are services therefore public bidding not legally required
- Make sure experience matches the needs of your project
- Talk with references (and other Libraries who have used them)
- Communicate upfront expectations of fees and expenses (when they are to be paid & the amount to be paid if the project fails)

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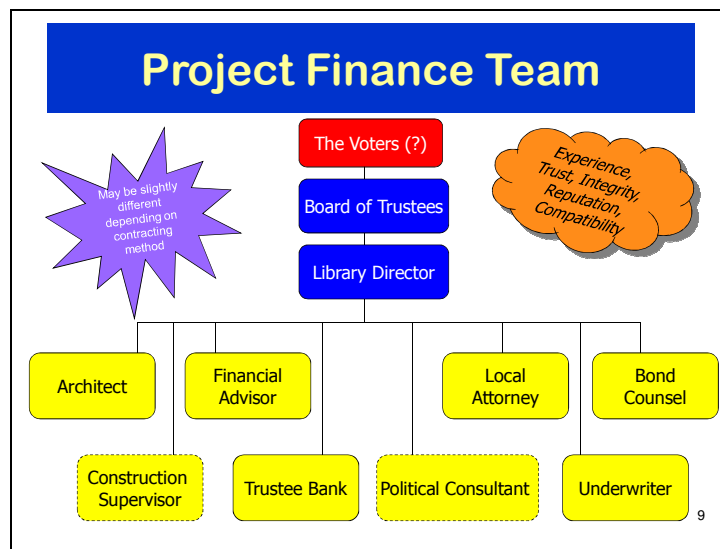
And the keys, we like to call them your cast of characters. A few things we want to point out on the outset. In terms of developing or putting together your professional team, for most of these services these may or may not be required to be publicly bidden. It is important that the experience will meet the needs of your project. Regardless of the scope or size of project, Jane and I work on all sizes and it doesn't seem to matter, because you will still have to go through the same steps. And so, it's important that those who are working with you understand the complexity of all that you are going to need to accomplish as you are going through the process. It is important to talk to

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others. Get a sense of who might be a good fit whether it's architect, financial adviser, and bond counsel, whoever that person may be.

I also think it is important as you are establishing those relationships too at the beginning of that relationship communicate different things about fees and how you are planning to pay for the services provided. Normally, fees are paid out of the bond proceeds. All your professional team will be paid once the bond is sold and money is received by the library. Depending on the scope of the project, so for example, you have a referendum process or petition/remonstrance, there are different phases of planning, there could be place in there where there is maybe some fees that you do pay up front but you will be able to be reimbursed for those fees out of the bond proceeds. It is money you can be reimbursed for when bonds are issued.

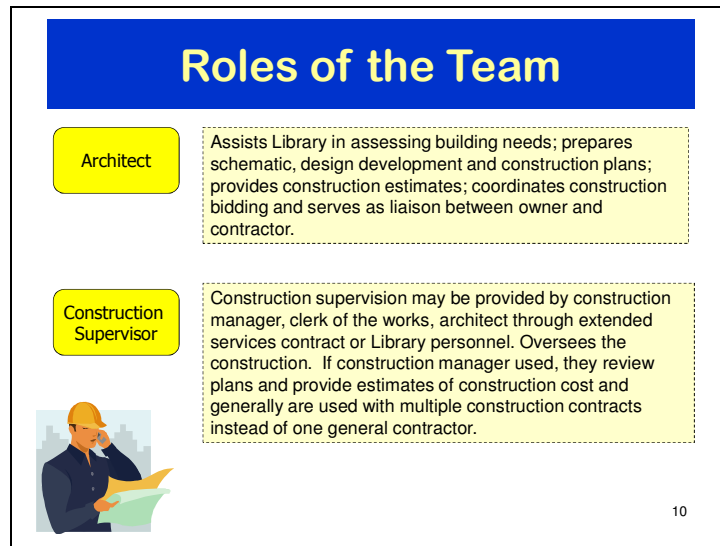
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For the Project Finance Team we put the voters at the top of this scale because of projects where there is petition/remonstrance to go forward or to not proceed with the project, there's a referendum. The second tier is your board of trustees, you as the library director. And then those who are supporting you include architect, engineer, financial advisor, your local attorney. If you don't have one (local attorney) and you are contemplating going through a project like this, Jane would say it is probably good to find a local attorney to assist you because there are a lot of legal publications that need to be satisfied. So it is good to have someone locally to shepherd you through that process; in addition have a bond counsel, and later in the process, once bonds are being marketed, an underwriter will come and support as a purchaser of the bond. And if you have a referendum, a lot of times a political consultant is involved because referendums really are campaigns. And many successful campaigns include a political consultant.

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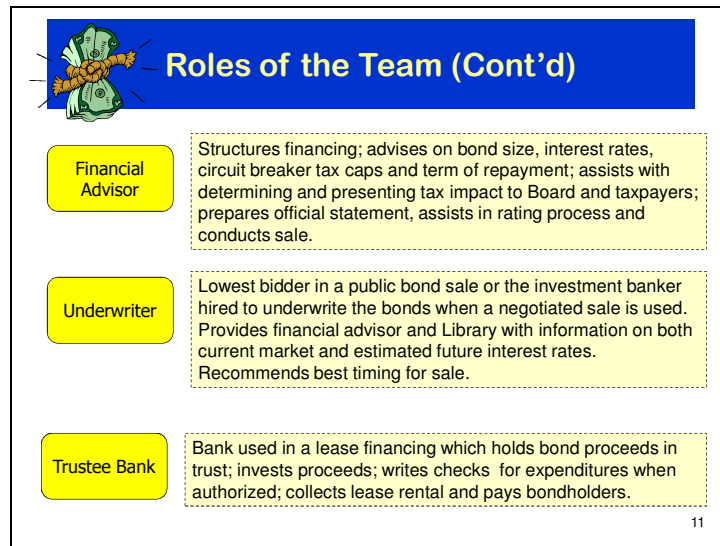


I have it all written down here to describe the roles of the team. The architect or engineer may be your first contact because you and your board are considering a project but you don't know exactly what you need. You may do a facility assessment. They may come out and look at your facility, things you may look into, also recommend looking at other besides building types and improvement. If there are other internal improvements, not just bricks and mortar, but other improvements within the library. The construction supervisor can assist if you have a lot different projects, several different contractors. They can help you through that process, to help coordinate individual contractors. (Question from audience) Yes, Construction Supervisor plays the same role as a general contractor.

This stage when you are meeting with some of these individuals up front, it's important to communicate with them maybe what you think is feasible at the outset, indicating those expectations so you don't have someone come back with, say you were thinking about a million dollar project and they comeback with a million and a half or two million dollars. Then at that point you have to pare down from the beginning. So having some parameters available are helpful at the outset.

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As a financial advisor, Umbaugh serves as financial advisor to many libraries throughout the state. As financial advisor we are here to help you look at current debt structure to see how bonds can fit into your current structure, current debt repayment structure. If you don't have bonds outstanding, we would look at bringing a debt service payment online, different tax impacts and implications of doing so. We are there from the beginning looking at the financial feasibility and then we work with you through the sale of the bonds. And at that point we put together a marketing document, an offering; we will talk about that later.


The bond's underwriter is the purchaser of the bonds. And really our rule throughout the process is to make sure that we are looking out for the best interest of the library. We are making sure it is lowest interest rate possible keeping within the maximum parameters that have been established through the legal process. Underwriters have different roles depending on the type of sale and we will get into that later. We can either sell bonds through a negotiated process or a competitive process; and the underwriter's role is dependent on which method of sale is chosen. But the underwriter essentially purchases the bond. They look for potential investors and then they provide rates; provide a bid to purchase the bond. So they purchase the bond. As the library when you make payments, you won't make payment to the underwriter, but you be making that to Trustee or paying agent, a registrar, who will make payments to those bond holders. The underwriter helps to put together all those who are purchasing the bond.

We have a trustee bank here and they are involved when you make your payments. Trustee bank, registrar, paying agent will send you notice, tell you how much you owe on your bond; you will make payments to them and then they will make sure that payments get to bond holders.


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Roles of the Team (Cont'd)



Local Attorney	Regular Library attorney who oversees preparation of resolutions of Library board and building corporation; coordinates legal publications; arranges for appraisal proceedings, if needed; obtains title insurance and acts as general legal advisor to Library.
Bond Counsel	Advises on correct procedures to follow; prepares financing timetable; drafts major documents; advises (with other team members) on strategy for successful petition/remonstrance or referendum; shepherds closing on bonds; reviews all proceedings and delivers bond counsel opinion that lease/bonds are valid and interest on bonds is tax exempt.

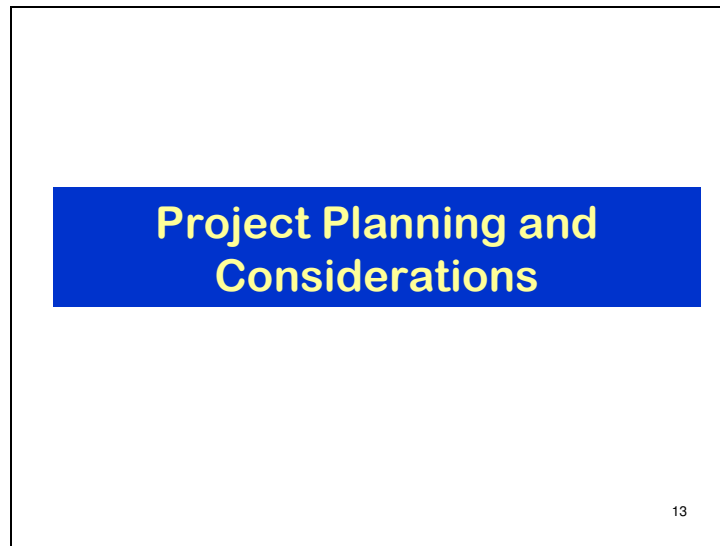


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Finally, we have the attorneys who will be involved in the transaction, including the local attorney who can be very helpful throughout this process, knowing the local political atmosphere. And making sure at the local level everything is appropriately advertised and they also help in the reviewing of documents; if there is title insurance on the transaction, they would help.

Jane Herndon at Ice Miller serves as bond counsel at many public libraries throughout the state. Bond counsel makes sure that everyone follows the legal process that needs following. They provide a timetable, maybe the important thing they do is sign-off on the tax exempt legal status of the bonds. Make sure everybody knows this process is legal and allows the bonds to be issued.

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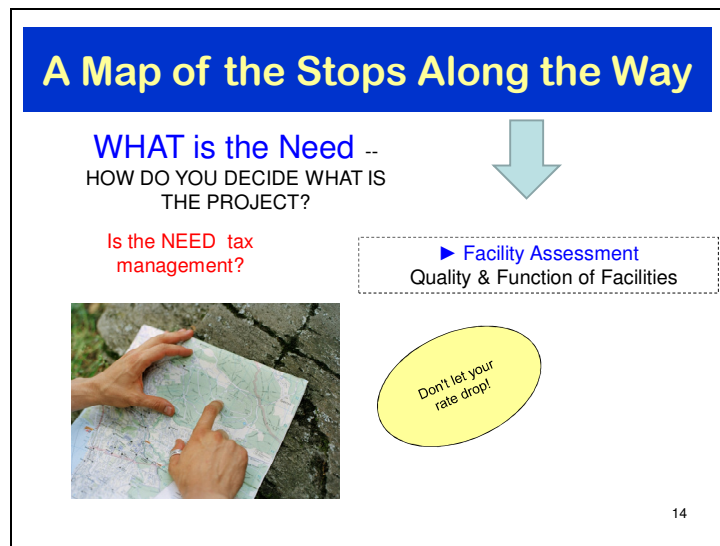
Once your working group of professionals has been established, we know we like to have a preliminary phone call at the beginning, when things are getting underway, to talk about where things are: do you know what kind of project you are looking at, have those talks been finalized, also getting an idea for timing when you need the money, because we have to work backward from the date when you want or need money. And a new wrinkle including the additional approvals that are required from fiscal bodies, so that also puts some additional time in the process. So we are looking at your project from several different phases. That first one is the project planning financial structuring of things and in there we are looking at the costs, we're looking at the tax impact. The second phase, and it is going concurrently, is the legal process, all the different approvals that need to be obtained. And Jane will go through this later, but there are several different paths that will need to be followed depending on a variety of factors: size of the project, and the assessed valuation of your library, there are different processes to be followed.

And then finally, everything has been followed legally, you have all your approvals, we would move into the bond sale.

And in conclusion when you get your money I am looking at that post sale compliance.

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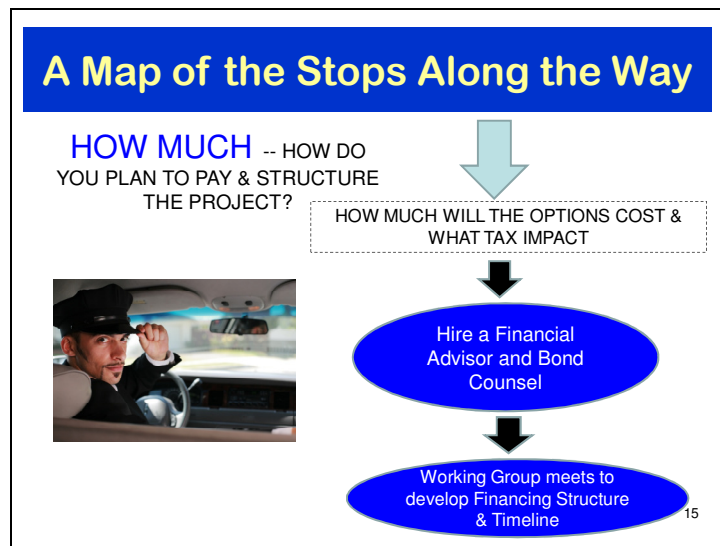


The question is about the underwriter, when the bonds are being marketed, if the underwriter is looking at potential purchasers if they are looking at local purchasers or looking at purchasers from all around. We direct our clients to local because there is a sense of pride in purchasing bonds to benefit the local community. Often we tell underwriters that the client would like local participation. We will call those who are active locally. "Such and such library is getting ready to issue bonds, if you could provide a bid to purchase these bonds."

Looking here at a map of your stops along the way, there are a lot of questions that need to be asked. Thinking about your needs versus wants that you have. Looking at your current facilities, not thinking about how they are working today but the 5 to 10 year timeframe. Another piece to think about and I will get into more detail is looking at tax management. When looking at your current debt, at some point that debt will be paid and they may be an opportunity for you to bring on additional debt where there is minimal impact to meet library needs. With the circuit breaker tax credits, now that they are here to stay, there is a lot of tax rate sensitivity. And that is compounded because you have to get approval for your bonds from a fiscal body from town or city council or county council; you are going to meet with that fiscal body to ask for approval of bonds. It's a much easier sell to them if you can tell them you can accomplish as much as you can without a tax rate impact. A tax increase in their minds is Dollars coming out of my pocket. That is sometimes unavoidable, but you need to be forthright in providing information to give a realistic picture. That is why tax management is important and not letting your rate drop. It becomes more difficult if you let the rate drop and then bring rate back up; people will notice. People value consistency in rates they are paying. How much and how you going to pay for project that's why it is important to bring in a financial advisor and bond counsel. You need to have a idea of what you want the project to be, the things you need to fund; you also have to have an idea of how much it's going to cost and the process you need to take to get there.

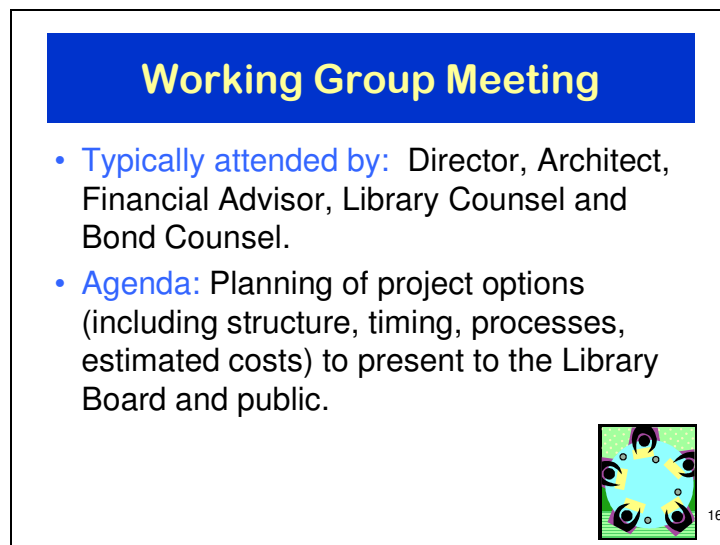
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How much and how you going to pay for project? That's why it is important to bring in financial advisor and bond counsel. You need to have a idea of what you want the project to be, the things you need to fund; you also have to have an idea of how much it's going to cost and the process you need to take to get there.

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At this initial working group meeting, it is typically attended by yourselves and any other library decision-making team, your architect, financial advisor, and if you have counsel, and a bond counsel. The purpose of that initial meeting is to talk about essential ways to structure the bond, Also it seems at some meetings I have been attending that if there are building projects being contemplated, then also asking the question are there other

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needs in the library that are currently being paid out of the operating funds. Maybe you have roofing out of your LIRF funds. Anything that could be put into a bond issue and financed over a reasonable amount of time, we can talk about that in a little bit.

At this point it is really okay if all the details are not finalized as your project scope because a lot of times getting the group together to have the conversation to help facilitate ideas you know to get someone else to ask the questions about things you want to include in this project because of the process you have to go through to get fiscal body approval. It may be several years before you go back for another bond issue. Incorporate what is needed in that 5 or 10 year time frame. May be more advantageous than looking at what you need right now and to go back to that fiscal body in two years. It kind of depends on your relationship with your fiscal body. It is just something to think about.

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Planning Questions

- What types of projects are being contemplated?
- Is the Library currently using Operating or Capital Projects funds for capital expenditures?
- How will the par amount be determined (a maximum amount or project driven)?
- Are there funds on hand that will be contributed toward the project?
- What is the existing debt structure of the Library?
- How will Circuit Breaker Tax Credits be impacted from the issuance of bonds?
- Who is the fiscal body? What is the political environment?

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I put together a list of planning questions. This is a good starting list for a library director to think about in terms of planning for your project. What kind of project are you thinking about? Is it going to be a renovation, new construction? Are you trying to some maintenance on your facilities, do a rolling maintenance plan. Are you currently using Operating, Capital Projects or LIRF money for capital expenditures? You could look at putting some of those expenditures into a bond issue. We are seeing a lot of schools doing this. Some libraries do this and they are starting a rolling bond program. They are paying for those expenditures in a bond issue that they are paying over three to five years; usually more of the three year time frame. Because they can issue another series of bonds and make sure the payment is the same. It's another way to finance all those capital needs.

How would the par amount be determined, the amount of bonds that would be issued? That's a discussion to have at the very front end. We might determine we are not going to issue more than one million or two million dollars in bonds. And you need to know that at the outset or better way to determine par amount is that it is project driven. If you

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are comfortable, regardless of the scope that it will be under two million or one million, it will be determined by the project that is developed.

It there are any funds on hand, if you are applying for any sort of grant, if that is contributed toward the project. We are looking at project where library is combining traditional bond financing with grants and they are at a point where they don't know if they are receiving the grant. It is a two-tiered process. That's something to think about when discussing with an architect and engineer for a project if you do receive grant and a project where you don't receive grant. Regardless of the outcome, you will be able to proceed.

Question: As financial adviser, do we have ideas of where those grants are? We can point you in the right direction. There are professionals who have put these grants together and we (Umbaugh) have not done that. You also want to look at your existing debt structure. Are there opportunities to bring on additional debt with minimal impact? Look at circuit breaker tax credits, they will be impacted. Depending on your location you may or may not be impacted by the tax credits. If you are located in incorporated areas, where there are cities and towns, overlapping jurisdiction that are probably more impacted than unincorporated areas, so mostly township properties. The reason for that is there are additional layers, taxation to provide additional services. Finally, one of the very initial questions to ask is who is your fiscal body and what is the political climate? Jane will get into this later. It is more a driver of the process than it ever has been in the past. A lot of times you have to have those conversations before you can really do anything to make sure they are comfortable with where you are coming from, so that when you go to whoever is your fiscal body, it is smooth sailing by the time you get there.

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Project Scope

- Renovation of existing facilities
- Addition to existing facilities
- New construction
- Land acquisition and development
- Roofing
- HVAC
- Carpeting
- Computers (hardware only)
- Technology infrastructure

Is the Library currently using Operating or Capital Projects funds for capital expenditures?

What is the useful life of the projects/improvements?

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In terms of project scope you may be thinking what kinds of things I can finance with bonds. It doesn't need to be a huge renovation or demolition or doesn't have to be a new library, a lot of new construction. It certainly includes all of those things. Because revenues are more constrained, thinking more broadly about what can be financed with bonds is a good idea in terms of capital planning into the future. You can look at land acquisition. I will use Loren Malloy, Director, Danville Public Library as an example. They are currently getting ready to issue bonds in order to purchase land to build a parking lot. They will be issuing bonds for that particular portion of the project and then they have a larger project they will look at next year. The reason for the two series of bonds is because they have bonds that are going to be repaid and they are not far enough along in larger project and they have this other need, taking opportunity to meet these needs and keeping the tax rate where it has been for tax rate management purposes.

We also include things like roofing which are more traditional things to include in bonds, and also HVAC and carpeting. We have been doing a lot of computers lately. Bond counsel is the ultimate authority on what can be financed with bonds, usually hardware and normally financing of five years or less. We talk about what is the useful life of the improvement, what the proceeds are going to be used for. Additions and renovations will last you 20 plus years with appropriate care. Computers and carpeting have a shorter life and replaced more frequently. Financing for these things are a shorter term bond.

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IDENTIFY OPTIONS
AND THE COST OF
EACH

Always talk about --

**TOTAL PROJECT
COSTS =**

Hard Construction Costs +
Soft Construction Costs +
Costs of Issuing Bonds

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We always get asked questions on this and we want to talk about total project costs. There are three components: hard construction costs, soft construction cost and the cost for issuing the bonds. Depending on how you ask the question about project costs and who answers, you may get differing responses. We want to make sure you know what is included in the three components.

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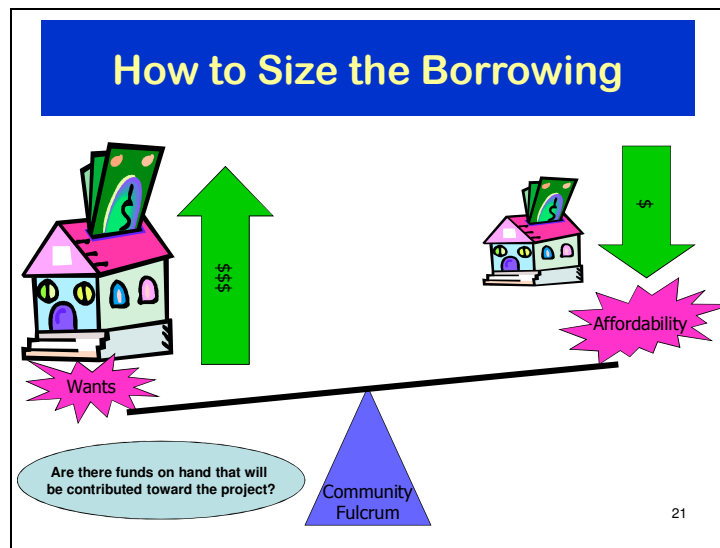
Hard Costs	Soft Costs (20%-30%)	
Hard Construction	Soft Construction	Costs of Issuance
Construction, i.e., "bricks & mortar"	Architect	Financial advisor
Site work	Construction manager	Library counsel
Utility relocation	Printing of plans	Bond counsel
Contingency	Builder's risk insurance	Title insurance
	General conditions	Trustee/Registrar/Paying Agent bank
	Equipment	Underwriter's discount
	Technology	Official statement
	Land	Interest during construction

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Hard construction costs include true construction on the bonds, bricks and mortar; any site work and relocation needed, construction contingency. That is 80% of what you need through financing. Remaining 20% to 30% is what we call soft costs and cost of issuance. Soft costs include any fees to architect, construction manager, any construction related printing required; also includes equipment, technology and any land purchase. Third portion includes fees for those professionals involved in the issuance and includes financial advisor, bond counsel. Also includes those fees for Bank that functions as Trustee or registrar paying agent; bank makes sure the money gets to bond holders. Also includes a fee that is paid to underwriter who purchases the bond; fee for marketing the bond and getting investors. There are also fees for putting together the marketing document. Also any sort of interest during construction, depending on how long that is, not very much money but it can be a little bit of money depending on the length of construction.

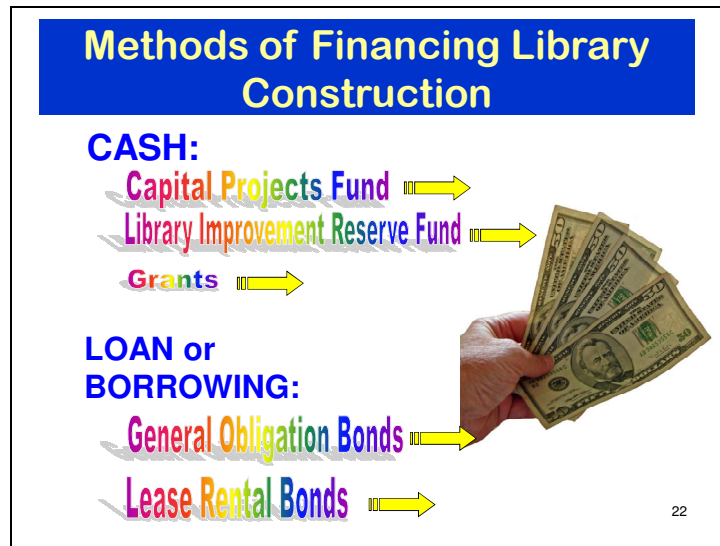
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When we look at what those total project costs will be, this slide that Jane put together illustrates all that you need to balance to come to an appropriate bond size for the project size. That gets balanced by all that you may want for the library and all that you can really afford. Affordability can mean a lot of things. The amount of the bond may be a non-starter, such 3 million dollars. Some or more concerned what the tax rate impact is going to be. Others are concerned with what that payment will be as a tax payer. There are a lot of things to consider.

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When we look at financing, how are we going to pay for what we need? Frankly, the money that libraries do have on hand, a lot of times they want to preserve that money. You never know what may come down, legislation in the future, so you want to keep as much money as you can. You may have cash on hand you may put toward the project but more often the money is received through bond issuance, either with general obligation or lease rental bonds. Jane will get into more detail. You have timetables and there are two types tax exempt financing available. And depending on tax unit general obligation debt limit, I have a calculation I include. The most basic way to put it is general obligation bonds are more streamlined and quicker; fewer legal step financing but if you don't have enough capacity you have the ability to issue lease/rental bonds. Bottom line is you have money you need and money will get to the bond holders. But you have legal steps to follow. I know I am simplifying but Jane will give you details.

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Debt Structuring

- Structure
 - Level : Same payments throughout repayment term, much in the same way your home mortgage is paid
 - Wraparound : Payments are increased as existing debt is repaid in an effort to maintain level payments for ALL outstanding debt
- Term
 - Maximum of 20 years
 - Should match the useful life of the projects/items that are being financed

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Also part of the preliminary planning, financial feasibility we look at how the bonds will be structured. That is what the financial advisor is interested and what the conversations will be about. We will put together different scenarios so you can see what the tax impact will be. Depending on the structure of the bond, depending on the repayment, looking at keeping a certain payment amount, so we work with you to look at the options and help you understand what option you want to pursue.

When we talk about different structures you may hear us say that two types payment are level repayment and you are paying the same payment throughout the life of the bond; it's the same kind of way you pay your home mortgage, except in this case you make the same payment every six months. And that's the structure if you don't have any outstanding bonds currently or you may look at a level structure if you do have outstanding bonds, but they may be paid off several years in the future, but you have future needs so you may have a smaller project now but a project in the future. You want to have some ability to issue bonds in future year with minimal tax impact.

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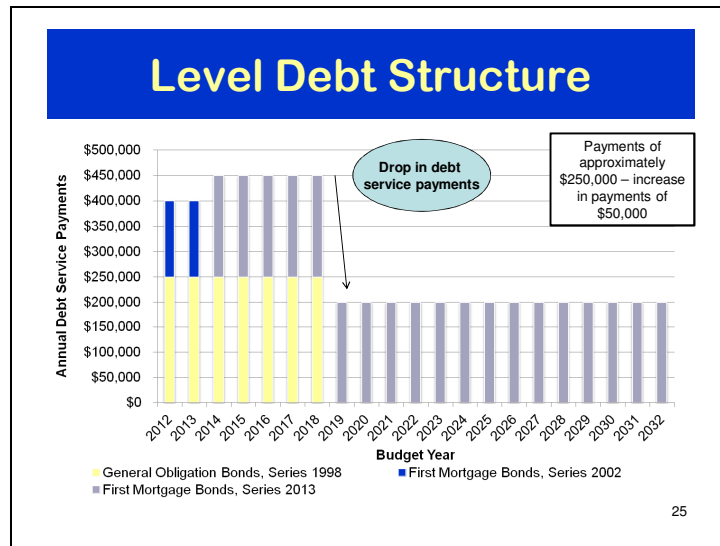
General Obligation Debt Limit	
Net assessed valuation	\$566,700,000
Divided by 3	3
Times: 2% general obligation debt issue limit	2%
General obligation debt issue limit	3,778,000
Less: Outstanding general obligation debt	(1,250,000)
Estimated amount remaining for general obligation debt issuance	\$2,528,000
If the total project cost exceeds the debt limit, the bonds must be issued as Lease Rental Bonds.	

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This is the general obligation debt limit and I will walk you through this example. You take the net assessed valuation and it is the most current Certified Net Assessed Value for your entity. Look at the budget order to be safe, because that is the last document; sometimes you can look at the 1782 Fund Report, but the Budget Order is the final on what was approved through 1782 process. Divide by 3, that is now part of calculation, and multiply by 2%. So the maximum debt limit is little bit under 3.8 million dollars. Then you have to deduct out whatever par amount of bonds is outstanding for general obligation debt only. So here in this example, the outstanding is 1.25 million dollars. That leaves 2.5 million dollars for general obligation debt. So if you had a 3 million dollar project that would exceed your debt limit and you would have to proceed with the lease financing. If it was a 2 million dollar project, then you can proceed with general obligation financing. If you are looking at putting together a rolling general obligation program, and maybe your debt limit is only a million dollars or 500 thousand dollars, you may need to more carefully look at when you are issuing bonds to make sure you have the capacity that you need to issue GO bonds. If you are looking at issuing more frequently, there are more maintenance types of projects, you may want to streamline as much as possible, so you want to time the issue based on when the other bonds are paid and you have more capacity.

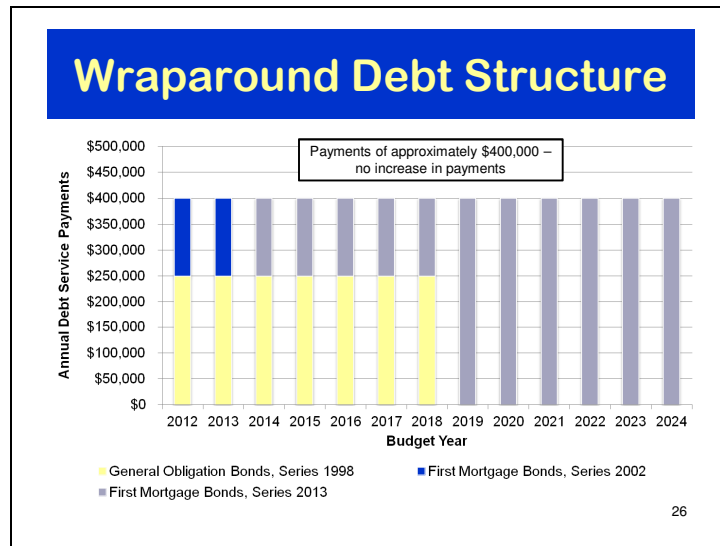
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I put together slides to illustrate the different structures I am talking about. On here I was looking at a debt structure where current debt is being paid through 2018. There were some new bonds they wanted to issue. In this case they decided to have a level debt structure because they wanted to have some capacity. See in 2019 where it drops off. They decided to issue bonds and there is little bit of increase in their total payment, They roughly increased their payments by \$50,000, but then in 2019 they have \$250,000 debt that could be brought on 2019 without a tax increase. We are willing to increase our payment over and above current levels by \$50,000 in order to have additional capacity in 2019 because we have additional bonds we want to issue in the future. We want to allow for that opportunity in the future.

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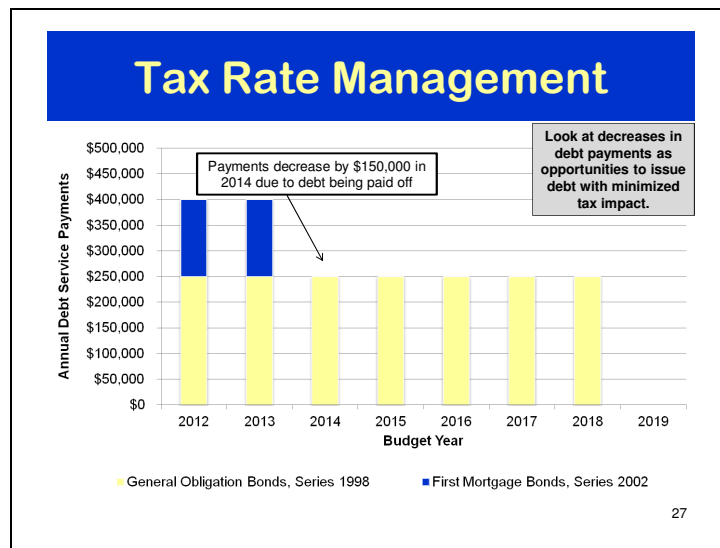
Take that in comparison then to wraparound structure where instead you try to make those payments or take them up to \$400,000, not exceeding those payments. You can see in the level structure it is the same PAR amount of bonds where in the first example they are paid by 2032, with the wraparound structure they are fully paid in 2024. You cut off about eight years in payment by doing wraparound structure.

Tradeoff is in the wraparound structure, you have \$400,000 payments out to 2024. So if you have longer term projects you have until 2024 to issue bonds without a tax increase. That's part of the tradeoff.

If you are looking at a level payment, you have a longer time frame and there would be more interest incurred. In wraparound you accelerate your payment structure, so you pay off quickly and incur less interest. With the level structure you have more capacity perhaps earlier than you would with the wraparound structure.

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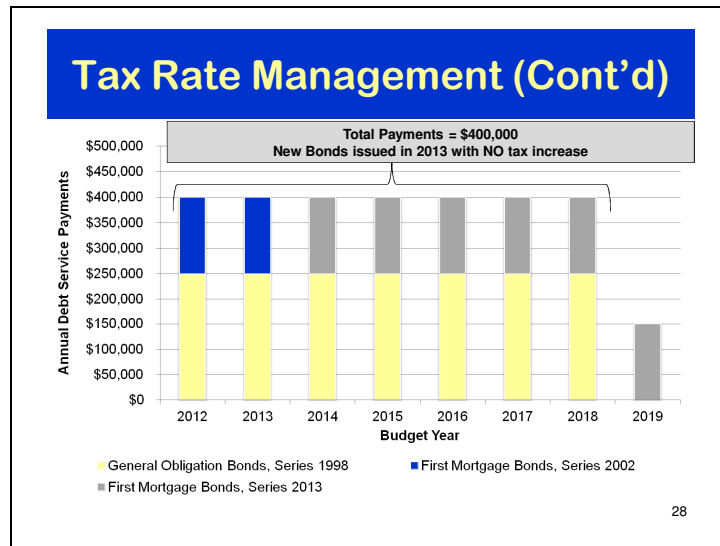
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To piggy back off at the structure you consider, look at the tax rate management. Look at what your debt payment and look at decreases as opportunity to issue debt with minimal tax impact. I say opportunity because I imagine there are always capital improvements needs. Certainly you don't want to issue bonds if it is not necessary. In this case in 2013 they have payments of \$400,000 and in 2014 it decreases by \$150,000.

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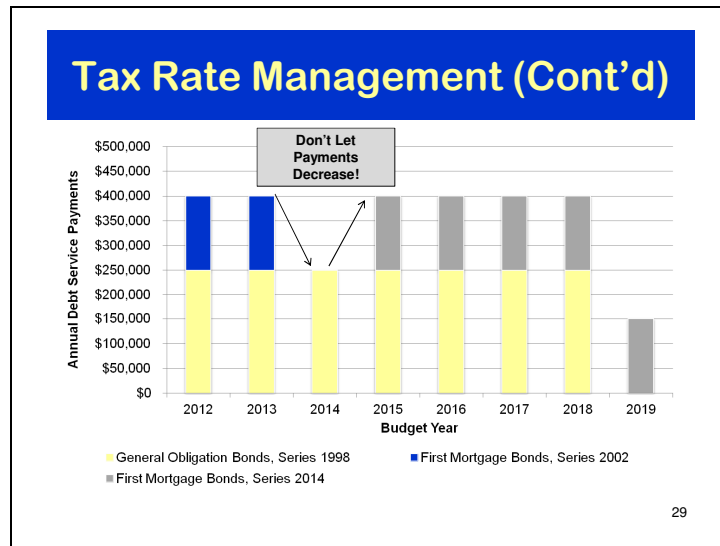
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You would issue new bonds in 2013. In terms of issuing debt any bonds you would issue in 2013 the first time you would be able to levy and receive property taxes on those bonds wouldn't be until 2014. So if you issue bonds in March of 2013, the first time you have the opportunity to receive taxes is June 2014. Regardless when you issue bond in 2013, you won't receive any money until the following year in June. You will see the sometimes issue bonds early in the year if there are projects that need to be completed in the summer. And a lot of times you'll see bonds issued later in the year, closer to the end of the year because then you'll have less interest to pay before that first payment. You will see a lot of bonds issued in November and December which makes for a busy time for us.

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I want to show this example where you might have situation in 2013 where you had a payment, but maybe you weren't able to get bonds issued and you have a dip in your tax rate; you issue the bonds in 2014. Then you have to explain. It is important to see where those payments are falling off and manage that.

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Circuit Breaker Tax Credits			
Property Classification	Gross Assessed Value	Capped Percentage	Maximum Tax Liability
Homestead	\$100,000	1%	\$1,000
Other Residential, Rental, Agricultural Land and Long-Term Care Facilities	\$100,000	2%	\$2,000
Business (Real/Personal)	\$100,000	3%	\$3,000

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Last piece I will talk about before I turn it back over to Jane is about circuit breaker tax credits. These came about in 2008. This is as a reference. I don't want to over explain or under explain.

Circuit breaker is a hard cap on amount of property tax an individual taxpayer pays.

There are three classes of property: homestead properties are subject to a 1% cap; so a \$100,000 couldn't pay more than a \$1,000. There are some variances there if there is any debt approved by referendum payments outside of the caps; basically there is an adjustment to the cap for that. Second category is other residential, rental, agricultural land and long-term care facilities and that is capped at 2%; so it's \$2000 on a \$100,000. Then business, all other real and personal property is capped at 3%; so a \$100,000 property would be capped at \$3000.

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How are Tax Credits Funded?

- Credits are funded by a reduction in property tax revenues of all Taxing Units in proportion to their levy.
- Property tax rates may not be increased to offset the shortfall.
- Funds may not be borrowed to offset the shortfall.

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Credits are funded by you, tax units, because credit that a taxpayer receives results in a loss in revenue to all the taxing units that serve that taxpayer. So a \$100 tax credit is loss for the county, the library, the township, the city or town and school. Money is loss in proportion to your rate.

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	\$100,000 Home 1% Cap	\$150,000 Home 1% Cap	\$200,000 Home 1% Cap	2% Cap (rental, farm)	3% Cap (business)
True Tax Value Homeowner/Taxpayer	\$100,000	\$150,000	\$200,000	\$150,000	\$150,000
Less Current Homestead Deduction	(\$45,000)	(\$45,000)	(\$45,000)	\$0	\$0
Less Supplemental 35% Homestead Deduction	(\$19,250)	(\$36,750)	(\$54,250)	\$0	\$0
Less Mortgage Deduction	(\$3,000)	(\$3,000)	(\$3,000)	\$0	\$0
Net True Tax Value	\$32,750	\$65,250	\$97,750	\$150,000	\$150,000
Divide by 100 = Net TTV per \$100	\$328	\$653	\$978	\$1,500	\$1,500
Times Estimated Tax Rate from All Taxing Units	\$3.50	\$3.50	\$3.50	\$3.50	\$3.50
Gross Tax Bill	\$1,146	\$2,284	\$3,421	\$5,250	\$5,250
Less Tax Credit	(\$146)	(\$784)	(\$1,421)	(\$2,250)	(\$750)
Max. Tax Bill Taxpayer Pays (TTV x __%)	\$1,000	\$1,500	\$2,000	\$3,000	\$4,500
Loss to Units	\$146	\$784	\$1,421	\$2,250	\$750

Example shows the different types caps. The three columns that are talking about different homes of different values, show all homeowners get deductions that are not available to other types of property: homestead deduction, supplemental homestead deduction which is 35% unless you have property valued at over \$600,000 where a different kind of calculation is made there, there is also a mortgage deduction of \$3,000, then you arrive at your true tax value. The Net True tax value is \$32,750 which is roughly 1/3 assessed value.

On the bottom half of the page we are showing an example of a tax bill. Your tax bill is per \$100 of assessed value. So this is \$328 times \$3.50 (taxing rate for all units) and a \$1100 tax bill. But because the cap is at 1000, \$146 is lost due to cap.

How are tax credits funded?		
Taxing Unit	Tax Rate	Levy Reduction
County	\$0.3500	(\$10.00)
Township	0.0350	(1.00)
School	1.7500	(50.00)
Library	0.0525	(1.50)
City	<u>1.3125</u>	<u>(37.50)</u>
Total	\$3.5000	(\$100.00)

Beginning in 2014, Non-Exempt Debt Funds will NOT receive Circuit Breaker Tax Credits.

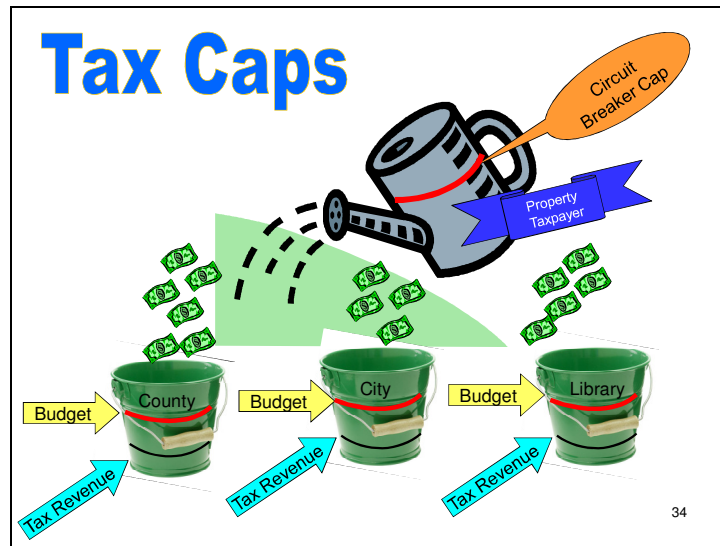
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This takes the \$100 received as a property tax credit and takes it down through the units because it's all shared.

If you currently have a debt service fund, the general assembly made a distinction between protected and unprotected funds. Protected funds are any funds used to pay debt service. And unprotected funds are all other funds. The reason for the distinction is to give additional security to the debt service funds. In the past debt service funds had been included in the circuit breaker tax credits calculation, any non-exempt debt, and have been included in the distribution of tax credits. When it came down to distribute, they shared in that loss. There was concern that some units wouldn't be able to make their debt payments. The debt service funds were able to have that six month working balance, in reality units were not able to cushion some of those losses with working balance available. The assembly made this distinction between protected and unprotected. The protected funds are still included in the calculation circuit breaker tax credits but are excluded from the distribution of circuit breaker tax credits. If you have an operating and a debt service fund, this year your losses were split between your operating and debt service fund. In 2014 all your losses will go to the operating fund. So if you have a debt service fund this year, think about that for next year, as losses in your debt service fund will all go to the operating fund.

Who knows what the legislature will do? Originally this was supposed to go in effect in 2013 but they delayed that implementation.

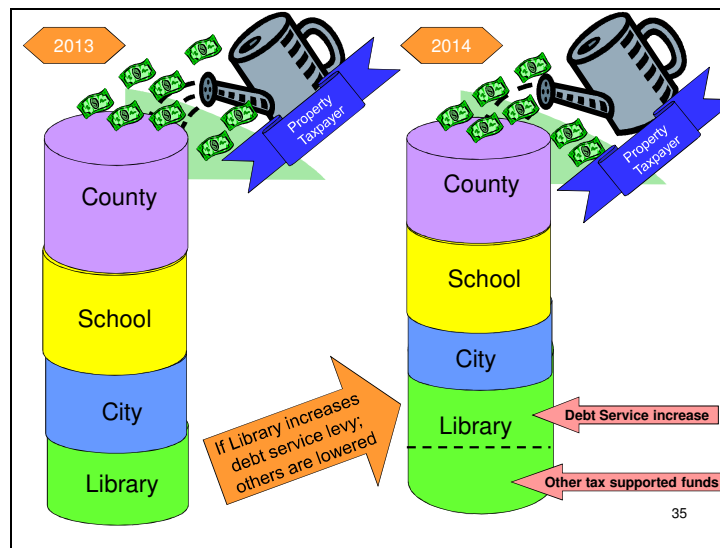
Slide 34



The next couple of slides illustrate what we were talking about with the tax caps. There's a bucket for each taxing unit. The watering can has a line, there's a certain amount of water in the can and it goes into the different buckets, county, and city and library. Once the watering can is empty there is no more money to go into those different buckets. The redline on the unit buckets represents the loss to those units due to caps.

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Look at this in terms of how this breaks out, if the library or another unit increases the overall tax rate, you see proportions in 2013 column. And in the second column, the library has increased its overall rate because of debt service increase, the results in smaller shares for city, school and county. More money for library results in additional credits for everyone and results in a loss of revenue, including the library.

Slide 36

Factors Influencing Circuit Breaker Tax Credits

- Assessed Values
 - Actual trending results
 - Significant changes to the tax base
- Levies
 - Changes in growth factor of Controlled Funds
 - Issuance of debt (inside tax cap calculation)
- Credits
 - Income tax collections
 - Changes to local homestead credits
 - Adoption of Property Tax Relief LOIT (Option B)

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There are really three drivers. Be aware of what is going on in your community and what is going with taxing units for which you share jurisdiction. Tax credits are very sensitive. First is assessed valuation and this was a reassessment year. Different than other reassessments where are significant jumps and that is why trending was implemented to try to avoid those major increases. In 2013 some of you may have saw a decrease in your assessment. The reason for that, the trending was looking at market data over several years, assessing the property. Saw some increases, some decreases and some stayed pretty close to previous value.

Second major drivers are levies. Relates to changes in growth factor for controlled funds. In 2014 that growth factor is 2.6%. Some may remember when that factor was 4%. Growth factor used to be a lot higher and it has decreased due to rolling factor of non-farm income. Since 2008 with the economic downturn impacted the amount of money available. Any debt that's issued inside the tax cap calculation impacts those levies.

Third factor is credits. Those are impacted if you are in counties with Local Option Income Tax (LOIT). Those are distributed as credits to taxpayers. They lower the overall liability of an individual taxpayer. You, the unit, still get the money, but it moves the taxpayer further away from the tax caps. If you are in a county with significant tax caps, the LOIT can move people further away from the tax caps there are fewer tax credits distributed among all the taxing units.

Slide 37

Project Scenarios

- Library A
 - Project Scope: Roofing, carpeting, computers
 - Total Project Cost: \$600,000
 - Existing Debt: \$125,000 annual payments, fully repaid in 2015
 - \$5,000 annual circuit breaker impact (1% of levy)

1. How long should the debt be repaid?
2. When should the debt be issued?
3. How should the debt be structured?

37

I want to walk us through three scenarios if you had certain circumstances. The first Library A is looking at roofing, carpeting and computers with a total project cost of \$600,000. Right now they \$125,000 annual payments fully repaid in 2015. They have a \$5,000 circuit breaker impact. First question is how long should this be repaid? Fonda Owens, La Porte County Public Library , said, "Five years." Belvia replied, "Yes. That would be correct." Not much longer than five years because of the useful life we talked about. When do we think the debt should be issued? So that we can get taxes in June 2015 when is the latest we can issue? The answer is November or December of 2014; you wouldn't want to issue them any later than that. Looking at how the debt should be structured, the library has some debt outstanding, should we be looking at a level structure or a wraparound? Answer is wraparound structure.

Project Scenarios (Cont'd)

- Library B
 - Project Scope: New construction
 - Total Project Cost: \$3,000,000
 - Existing Debt: \$500,000 annual payments, fully repaid in 2017
 - \$100,000 annual circuit breaker impact (20% of levy)

- How long should the debt be repaid?
- When should the debt be issued?
- How should the debt be structured?

38

For the next scenario there is new construction with cost of \$3,000,000. There are current payments of \$500,000 that will be repaid in 2017 and in this instance they have a \$100,000 annual circuit breaker impact, 20% of their levy. Should this be paid in a few years or should it be longer financing? Definitely longer finance term here. When should we think about issuing the bond if the current bond is repaid in 2017? Answer: Sometime in 2016 unit will want to issue the bonds. And looking at how the debt should be structured. This case is a little bit different because they have significant circuit breaker losses. You could look at issuing level repayment if you had additional needs in the future, but you may want to look at that wraparound structure. I didn't talk about this but sometimes we do a modified wraparound, give you a little more capacity. In case look at a wraparound because you are trying to manage the circuit breaker tax credits, trying to minimize the tax impact you have. If they have a 20% circuit breaker loss, all the other units that share jurisdiction have significant circuit breaker losses, whoever your fiscal body is will also be sensitive to the circuit breaker issue. That is something you have to consider as well.

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Project Scenarios (Cont'd)

- Library C
 - Project Scope: Renovation of existing facilities
 - Total Project Cost: \$1,500,000
 - Existing Debt: No debt payments – fully repaid in 2012 (prior debt payments were \$250,000)
 - \$25,000 annual circuit breaker impact (5% of levy)

- How long should the debt be repaid?
- When should the debt be issued?
- How should the debt be structured?

39

In the last scenario is a renovation for \$1.5 million. This library does not have existing debt; they fully paid debt they had in 2012. Prior payment was \$250,000 and the circuit breaker loss is \$25,000 annually. How long should this be paid? Short term or long term? Yes, this would be longer term. You could look at what it would take to have payments of about \$250,000. Library could make the argument that this is what the payments were and we are trying to stay around that same level. When do we think the debt should be issued? It could be issued at any time since there is no current debt payment. For structure, looking at level debt repayment since that is the only debt outstanding.

I am going to turn it over to Jane.

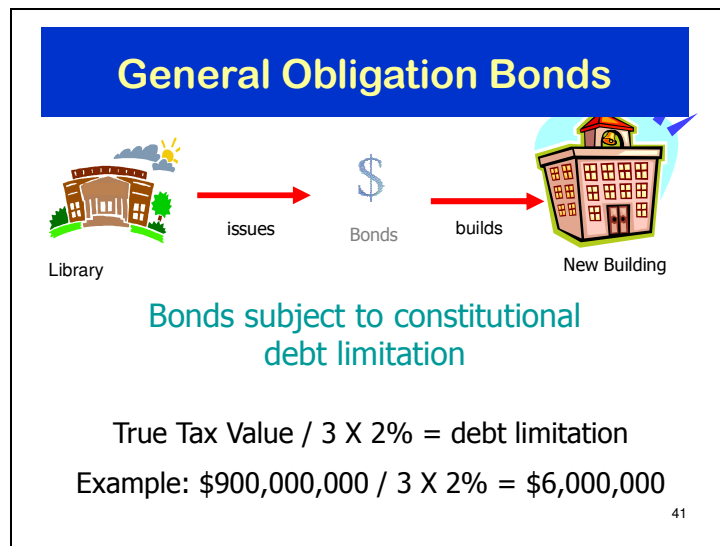
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Bond Structures

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We are going to take a 10 minute break. This is Jane Herndon and we are going to talk about the legal structure.

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I like pictures a lot. This takes what Belvia said and puts in a picture form. As she mentioned there are limitations on the amount of general obligation bonds that can be issued, constitutional limitation.

We didn't actually talk about what a general obligation bond is. Those are bonds that the library issues themselves. The issuer of the bond is the library and not a holding corporation or building corporation. The library is obligated to repay that loan regardless whether the building is built or not; this is a distinction you are going to hear from a lease financing.

Library issues the bond. They put the money in a Construction Fund., build the building renovate the building, buy the equipment or whatever the project is. Belvia went over the formula on the limitation which we have on the bottom of the screen for reference.

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General Obligation Bond Characteristics

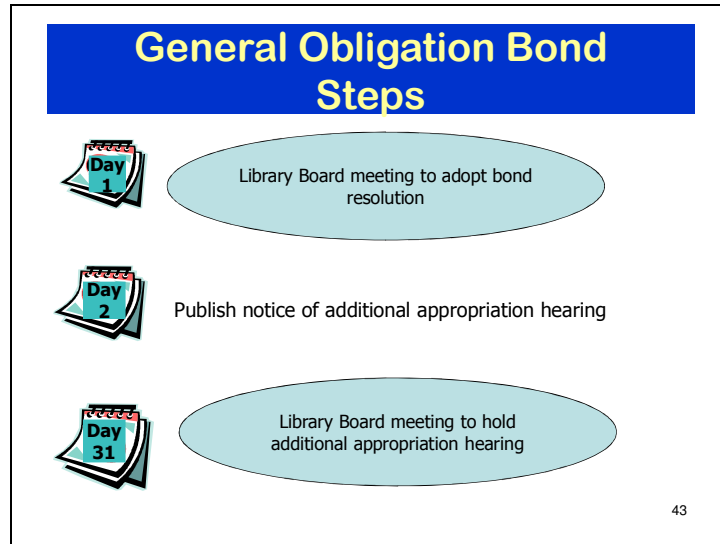
- Library obligated to repay
- Must be competitively bid
- Fewer steps, quicker, cheaper
- Uses debt capacity (not there for emergency)

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What are some characteristics of those GO bonds? Library is obligated to repay. The ad valorem property tax is pledged by the library district to repay those bonds. From the bond holders perspective that is probably the most secure investment. The more security the better the interest rate you are going to get. Those types of bonds must be competitively bid which means that on a particular date advised by your financial advisor you will go out to market and whoever gives you the best bid at that time is the winner. The underwriter that gives you the best bid wins that bond; you don't negotiate because it is competitive. General obligation bonds are attractive because they are quicker. You can do them in a couple of months. Because they are quicker and less complicated, they are less expensive. Fees associated with them are less. The downside is they do use your debt capacity. To the extent you have an emergency, my roof example earlier, if you used all your general obligation bond capacity for a project you did a few years ago, and now you have an emergency then you don't have that debt capacity available to you to use quickly. It used to be when I started, 20 some years ago, you would leave a little debt capacity for those emergencies. The truth is the world has changed a lot and most of the time people end up using their general obligation capacity and don't worry too much about the emergencies. There are other ways to borrow money in those emergencies, like lease financing, it's a little bit more painful. It's not like you couldn't get the money, it's just a little more difficult.

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These are the steps for a general obligation bond. The library board needs to meet and adopt a bond resolution. Let me stop for a second. I'm ignoring the other taxpayer processes for a moment; we will get back to those. I am just talking the GO bond and the lease bond steps. So this is the part where you are just going through the borrowing. In the bond resolution it establishes the maximum the library board approves for borrowing and the maximum length of repayment. There needs to be a notice of additional appropriation because these bond proceeds have never been part of your budget. So they need to be appropriated before you can spend them and the notice that goes out, the 10 day notice. And then the board meets again to adopt that additional appropriation resolution after holding a hearing. At that same meeting we oftentimes have the board adopt the final bond resolution. And that really has all the details of the borrowing.

We were talking about who is going to pay the bond holders, for example the bank. The library would cut the check and wire the money too. And the bank actually pays bondholders.

More details on how do you prepay those bonds would be part if this bond resolution. So it is probably 10 to 15 pages long, rather lengthy with a lot of details about the borrowing itself.

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Elected Board Approval – Budget				
Budget is Greater than Growth Quotient IC 6-1.1-17-20.3	More than 50% parcels outside City/Town limits:	If 50% or more of parcels are within the City/Town limits:		
		A. But Library district coterminous to City/Town	B. Library originally established by City/Town	If not A or B = All Others
Body with Binding Approval	County Council	City/Town Council	City/Town Council	County Council
Budget is Equal or Less than Growth Quotient IC 6-1.1-17.35	All			
Body with Non-binding review	County Council			

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Now one question we get a lot of in the library world is this fiscal body approval. Many of you know this is frustrating for libraries. It's also frustrating for those who work in the legal world. I put together a slide trying to help a little bit with this process. The boards you get approval of for your budget are not necessarily the same boards that approve a bond issue. The statutes are actually different. This is an area ILF and Senator Gard, before her retirement, really tried to help libraries. It's still not as good as it could be. If there is anybody on the legislative committee, this is an area that could use some assistance. I put on the slide a little bit information on what you would be looking at if you were getting your budget approved. And I am not going to go through those today. The important thing is they are different than the bond.

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Elected Board Approval – Bond Issue				
Approval of Bonds IC 6-1.1-17-20.5	More than 50% parcels outside City/Town limits:	If 50% or more of parcels are within the City/Town limits:		
		A. Library district coterminous to City/Town	B. Library originally established by City/Town	If not A or B = All Others
Body to Approve Issuance of Bonds	County Council	City/Town Council	City/Town Council	City/Town Council (statute is actually silent)

Additional Appropriation Approval?

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So a bond approval and this happened a few years ago, as you know the general assembly is concerned about appointed boards raising taxes. They have put in the statute that before a library can issue bonds you have to get a particular fiscal body's approval, the statute says before you can issue bonds. Practically at that working group meeting we talk a lot about going to that body early. What you don't want to do is do all the work with the architect and you have designs all ready to go and then you find you can't get the approval of your fiscal body. Now you have got to pay the architect for a lot design that you are not going to use. So you are much better starting that out fairly early in the process, making sure you can get that approval from your elected fiscal body. So on this table here, the first question are 50% of the parcels in the library district outside the city or town limits or are they within the city or town limits. In a way it would be easier or if all we did is look at parcel counts. That is not exactly what the statute says. It says if you are more than 50% outside the city/town limits, you are going to go to the county council, that second column on the slide. If 50% or more are within the city or town, then there are some additional questions to ask. Is the property coterminous with the town, in other words it is exactly the same. If it is exactly the same you go to the city or town council. If less than 50% are within the city or town, then you go to the next question. Were we established by the city or town originally? If you can find documentation that says that then you are at the city or town council. That is not easy and as you know the State Library gets these questions. Libraries have merged over time and it is not always black or white. Sometimes reading 1910 handwritten notes is not easy. If you can find it and you have documentation you need to provide it to bond counsel and local counsel; that is an option for you. The last piece is not particularly clear. If your 50% is within town or you are not coterminous and you cannot find any documentation to say you originally formed by city/town, it seems like you should go to the city or town; the statute is actually silent on it. That's how we have interpreted it that you should go to the city or town, it seems logical, but the statute is still fairly gray on

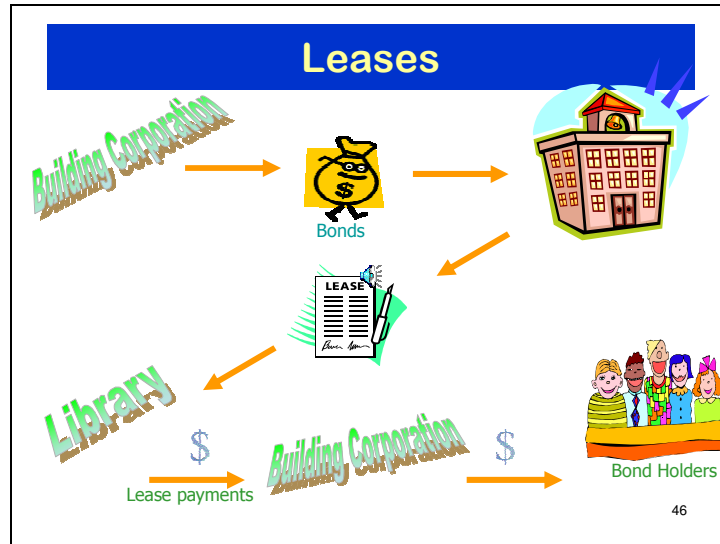
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that issue. As I said this is different than your budget process. When you are looking into the growth quotient, that is a different analysis and different language; I want to point that out to people. Johnson County Public Library is not exactly this issue and I wish Bev Martin was here to correct me on the facts. We did a bond issue a number of years ago and found some documentation that the library was originally formed, established by the city council, then they merged in the 60s with some county library and there was a lot of discussion of the merger documents. Because the merger involved the county, the question became is it really established by the city or was it because the county process that it was really established by the county. We went through all the documentation and finally got comfortable with our answer at the time but they ended up having a lawsuit over the issue. The good news is the bonds are paid off and so it ended up eventually being dismissed. The bad news is they got a lawsuit on it. It is not as good as it can be and this is an area that could use some clean-up legislation.

There is also a lot of confusion on the area of additional appropriation approval process. Generally speaking, bond proceeds need to be appropriated. That appropriation though unlike other appropriations you have been through, it does not have to be approved by the DLGF; it's a report to DLGF. Whether you are a city, library or school, whoever, you would go through the GO bond process, appropriate the proceeds, send a copy of the appropriation to DLGF for recordkeeping but you wouldn't ask for their permission and you were done. Now with this fiscal body mess, there is some discussion as to what to do with that additional appropriation. Does that need to go back to one of these fiscal bodies? What we have done with our clients, to avoid getting into that grey area, is at the time we go to the entity for approval, for example when Danville Public Library went for approval we wrote in language that said town council also approve the appropriation of the bond proceed and all the procedures related thereto. That was a way to protect that the library had gone through that concern. That is a hot issue right now. The statutes are not particularly well written. And the DLGF has some different interpretations. Talk with your counsels about that issue, your local counsel and your bond counsel. Question: about the parcels being the true count of parcels.

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Going onto leases, building corporation with lease financing are called holding corporations or building corporations. You see schools do this a lot in the community. And remember it does not have that constitutional debt limit. Here you form a not for profit corporation made up of community members. That building corporation is actually the issuer of the bonds. They issue the bonds; they take the bond proceeds to build or renovate the building; then they lease that building back to the library over the term of repayment of the bonds. Those lease payments through your debt service levy are paid to the building corporation who passes them on to bond holders. Lease payments are going match the amount of principal and interest due each year to the bond; there is a little bit of added cost to a trustee bank that Belvia mentioned, but it closely matches the debt service. And some people say this is a scam, this is getting around the debt limit. You are right it is getting around the debt limit but it is blessed by the Supreme Court, so it is legal in Indiana. We are unique; many states don't have this structure. The advantage is the bond world looks at this structure and treats it like a general obligation bond. It is very secure from an investor's perspective and this is good for Indiana units of government.

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Lease Characteristics

- No debt limit
- May be limited by market
- Takes more time
- More expensive
- May be negotiated or sold competitively
- Mortgage property
- Deal with another entity—Building Corporation

Building Corp. Members

How many & who?

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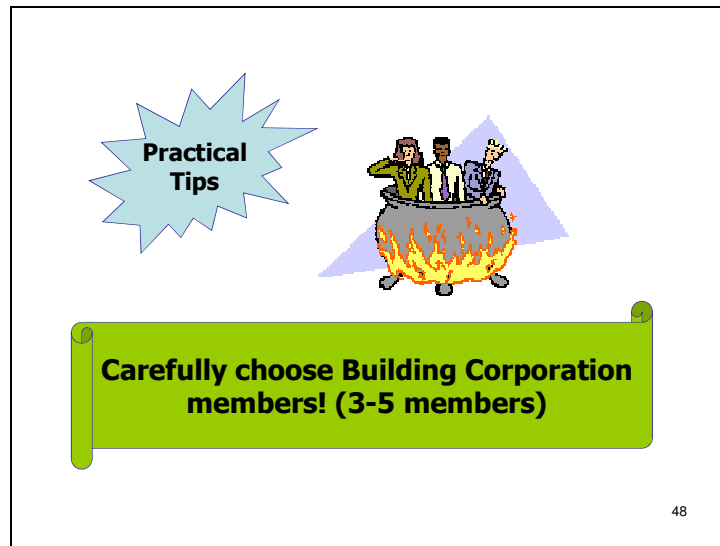
Some of those lease characteristics, I mentioned. There is no debt limit so you can borrow as much as you wanted legally under lease financing. There are market limits just like a home mortgage your potential lender would look at how much revenue you bring in each year compared to your loan amount and to your annual payment. Same thing here is if your financial adviser the market would take a look and be concerned if you are borrowing a \$100 million in bonds and yet the payment you get in each year in service levy isn't very much.

Lease financing takes more time; you can get them done in 4 to 5 months or so; but they take more time, are more expensive and more complicated. You can sell a competitive bond issue to lease financing or you can negotiate with an underwriter. If you have a relationship with a particular underwriter, maybe there is something going on in your community, a big taxpayer has pulled out, for example in Greencastle when IBM left in 1986 was about a week before Greencastle Schools were going to sell bonds, that is a huge problem when you have a taxpayer like that suddenly announcing they are moving, that is a reason a financial adviser would look at amending a negotiated type of sale.

The Building Corporation is going to have to follow the Open Door Law, they are going to have to have meetings. You are going to have to get them up to speed on the project and why you are doing it. And so lease financing are more complicated.

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Practical Tips

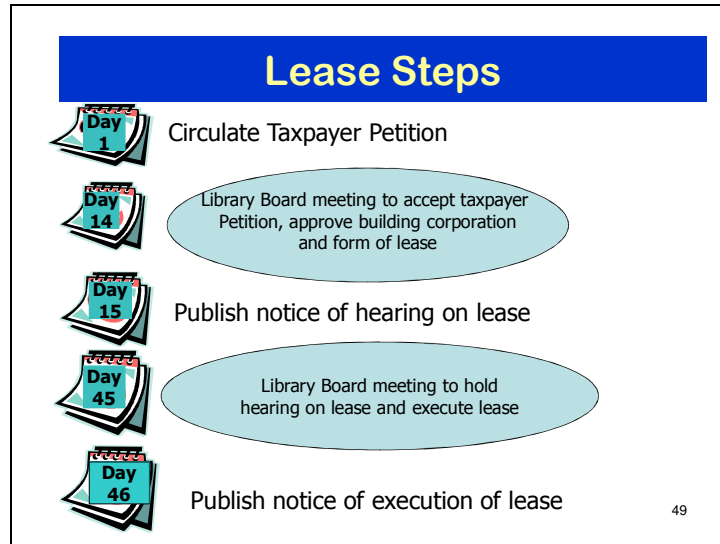
Carefully choose Building Corporation members! (3-5 members)

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These building corporations are one of the things that are very important because the building corporation is going to live with you until the bonds are paid off. You want to be sure to pick people who understand their role. They are not there to second guess the library director and board. They are there to assist you to do something you might not otherwise do. So pick the building corporation members very carefully. We usually recommend three, but three to five is a great number to use. And they really are the issuers of the bonds in this circumstance.

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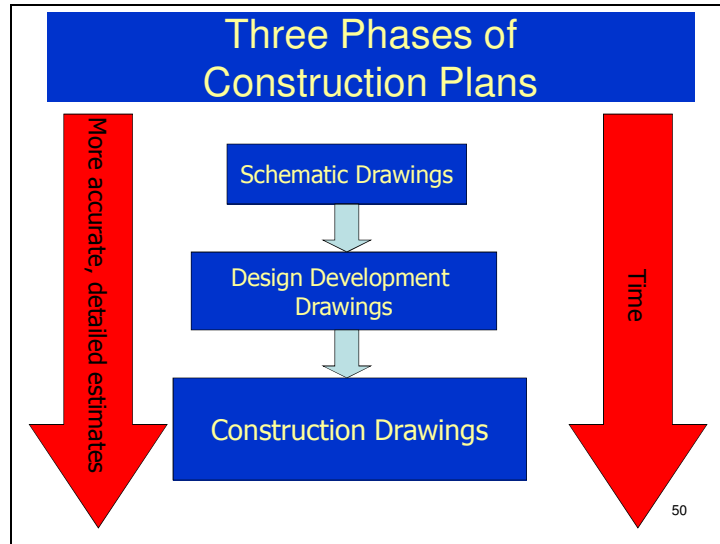
So what are the steps for lease financing? You would circulate a taxpayer petition. This is not like a petition/remonstrance. It's a simple get 50 taxpayer's to sign a petition. Library board would meet to accept taxpayer petition and to approve building corporation to issue tax exempt bonds on your behalf. And you would approve this form of lease we were talking about. You would publish a notice of hearing on the lease and the library would hold a public hearing to allow taxpayers to make comments about the need for the lease and the project. Then you would execute the lease and you publish a notice of the execution. So from the library board's perspective those are the steps for lease financing. Simultaneously, the building corporation would also be meeting, approving this leasing and doing some items.

The question was the timing of the taxpayer petition versus the building corporation.

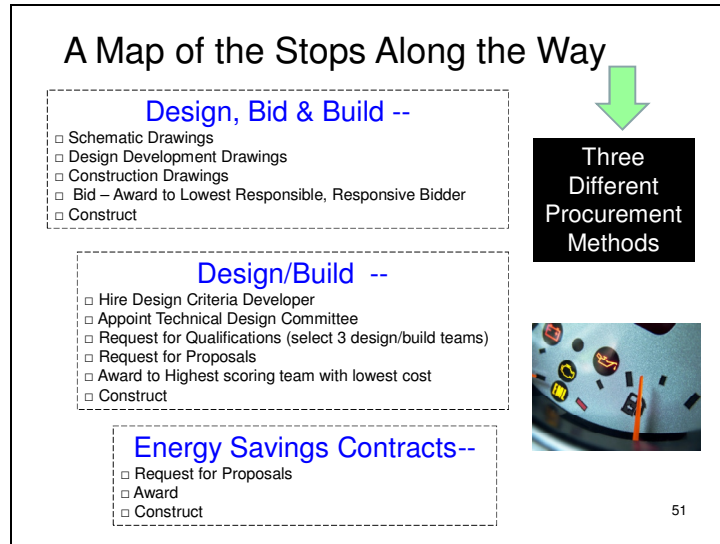
There is not a hard and fast rule on that, often it is simultaneous. You may talk to a couple of members of the building corporation, tell them this is happening so they are not blind-sided by it. It doesn't make a difference in what order you do.

You want someone you may play cards with at times. This is the kind of person you want on the building corporation. You don't want someone who is going to run for mayor one day. You want people who are low key and understand their role here.

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I want take some time to talk about the three phases of construction. Generally, you start at the general schematic design phase. The general concept and I am going to use new construction because it's a little easier. What kind of area do you need for the children, young adult area, what kind of meeting spaces? It is very rough not very detailed. And as you go along you get to the point of design development. This is about 50% done as far as the drawings. Not enough that the contractors go out and build the building, but enough that you can see how the rooms look, how things fit together, size of things. You probably have a picture of elevation of what the front of the building looks like. The final phase is the construction drawings and those all the details that the contractor needs. As you go through this process you should be getting better and more accurate estimates. As the architects know more, they give you better prices and as they get closer to the bid date they will be able to give a better picture of what the actual bidding market will be. This process can take anywhere from six months to a year depending on the project.



Talking about these procurement methods in Indiana, if you have done a project 10 or 15 years ago, you probably only knew about this first type of procurement, in other words the first way to get contractors. We call that the design, you bid it, then you build it. You have the design process we just talked about; you hired an architect or engineer, then you required to put those plans out to the public to bid; and you have to take the lowest responsible and responsive bidder. You can't go, "I really like that guy, I'm going to give him this bid. Or we worked with this contractor before and he did a great job." Those are not the factors you can consider in this project. It is who is giving you the lowest bid and are they responsive to those plans. There are a lot of complaints about that process. People oftentimes did not feel they got the best quality of work. Maybe ten years ago we had another process allowed by the general assembly called design/build. In the school world, especially larger projects this has become a very popular process. Hamilton Southeastern [Schools] did this on their last project, once they got a referendum approved a few months ago will be done this way; Noblesville schools, Lebanon schools, Crawfordsville, Mooresville, some of those larger school corporations are using this process. There is good and bad with it, but how it is different is that you put together a team that has a design criteria developer and a committee that comes up with criteria you need. For example, if you need two meeting rooms approximately this size; we need a children's area with this criteria in it; we want everything on one floor and you come up with criteria that is important to you, the library, in your design. Then you go through a phase where you basically short list teams. The team is made of a design component, like an architectural firm and a contractor. And then you pick three teams you think have qualifications. So for once you actually get to pick teams that you think can do the work. That is one thing people like about this. So instead of getting a bid from someone you never heard of before, you have the ability to pick teams who have experience in library world that you heard good things, that you think have enough experience to do the work. Once you shortlist them, then they actually do the design on

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the criteria you put together. The argument is when you have an architect and contractor working together; they can find things to make the design better and more economical. If you have done a project you have probably heard of change orders. It is not unusual for a project to get going and the contractor said, "Why did we put the elevator there? If you put it over on the other side you could save a whole lot of money and it would work better." You do a change order to fix that. Under this process the two are working together the whole time instead of the designer getting done and then bidding it out to the contractor. So once you get proposals back from the three teams, then you have one envelope you open that scores the design based on your qualifications and the other envelope is price. Then you divide the two and take the one that gives you the most value. It isn't necessarily the cheapest but the most bang for your buck. You can see how there can be some positive and some interesting things with this process. I will tell you though there is a lot of "grayness" in it. It is not unusual to have unhappy people about how you decided these criteria. For example, Crawfordsville ended up in a law suit. It is not the end all, be all. It has gotten interest from people and I wanted to mention it. I am not aware of any libraries going through this process.

Question: If a project is under a certain dollar limit is it still required to do public bids? There are some limits, I have it, a table that I use. If you are involving Ice Miller, a bond counsel, it's a largest enough project that requires bidding. I don't know those off the top of my head.

Question: Who scores the proposal? The committee, the question was who scores the different proposals. The design criteria developer and the technical design committee do the scoring. You need an architect, an engineer, on it and then there are usually members of the community. It could be board members or members of the administration, but it is made up of members in the community that does the tallying of the scores.

And the last type of process and some of you may have been involved in are the energy saving contracts. Those are projects that can only be done when involving renovation in that you are saving dollars in energy; you couldn't do a brand new building and say you are saving dollars with retrofits. It is more of a request for proposals and its very loose on your award and done very quickly. Many people find it attractive. The downside is you never know if you got the best price. Many of you have been called on by companies that do these energy savings, lot of window and lighting retrofitting. It is a different way to get contractors to do the work.

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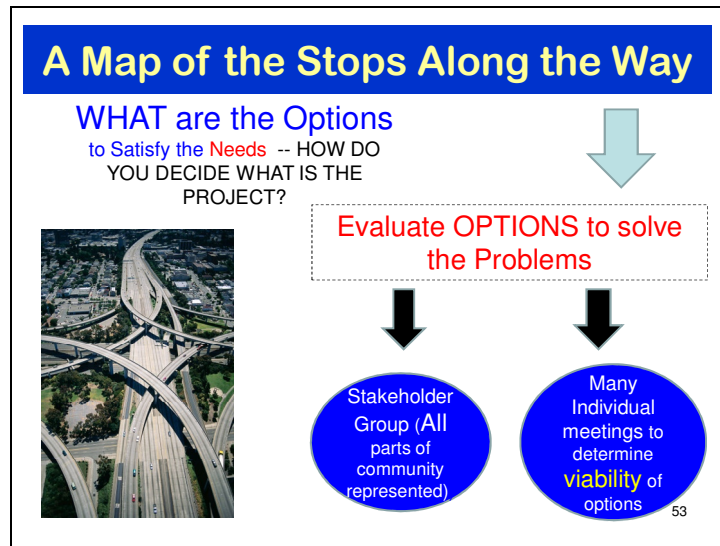
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Legal Processes – Approval
of the Bonds

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Slide 53



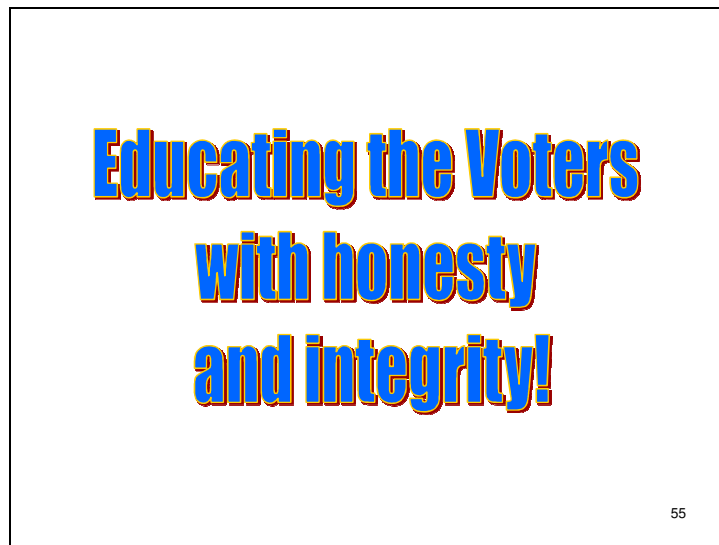
I want to move onto the public process and in many ways this comes before that decision on GO versus leases. The question is what determines if the project has to go to referendum, petition/remonstrance or if there is no taxpayer or voter opposition. Once you have a project that looks like it needs to be opened up to petition/remonstrance or referendum, all of a sudden the game is changed because you have to involve the community in a much broader, political way. You may need to think about how to get community input before making the decision: is it meeting with individual stakeholders in the community; is it stakeholder groups; how best to get information from the folks who are going to have a lot of say whether this project moves forward or not. In the beginning we use to have what we call town hall meetings, come on in to the library and we will tell you all about our project. In particular I don't think those are usually successful because you hear from a few loud people who don't necessarily represent the majority of voters and the taxpayers. So I think you are much better off to meet in small groups or with individuals. One thing I think is effective is you decide to meet with a small business owner, tell them about the project, what you think are the potential costs and impact, and ask them who else we should be sharing this information. And I can tell you that there have been schools through this process, they met with from 5 to 6 to 7 hundred people before they were ready to take a project on a ballot question. So it is a huge time commitment, but it is very important to get a feel for the community, not just the people coming through your door, not just your friends, not just your board members, but everybody in the community that potentially would be voting.

Slide 54



Let's start with this slide on Petition/Remonstrance and referendum. Usually, you can feel library people squirm, "Oh, I hate that."

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So I switched up with educating the voters with honesty and integrity. It usually makes people feel better. Don't kid yourself, it's politics.

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Long Term Planning

-  Ongoing Goodwill Campaign
-  Libraries & Community are partners – DUTY to Communicate
-  Develop a core group of volunteers and a communication network
-  Educate about the money and how you spend it – They need to know!

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You are planning to do a project, even four or five years down the road, you need to do some campaigning now. You need to be out in the public, in the newspapers talking about all the great things [libraries] do and why taxpayers should support you and find value in you. The truth is we all believe in libraries or we wouldn't be here, but they are a lot harder sell, politically and realistically, even than school projects. I am going to show you some statistics on how hard schools projects are to get through with taxpayers and voters. It is even more difficult with libraries. How do you build the community partners so that when it comes time to put something on a ballot, time to go to your fiscal entity to ask for permission, that it's a given? If Sue is here to ask for this, she is always responsible, go ahead and approve this. That's where you want to be. Develop a core group of volunteers and communicate with that group and network all the time. Again not just library supporters, business owners, ministers in your community, school, politicians, what can you do to bring those people together so that they can see the kinds of things you're doing in the library and why it's important for the community. And make sure you understand about the money. So many people don't understand about circuit breakers because it's confusing. People don't understand library finances or how you're funded separate from the city.

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Create & Bank Goodwill & Trust



- Get community members into your Library!!
- Create volunteer opportunities for senior citizens (or other groups)
- Provide news releases about “good news” and “events” at the Library
- The better citizens feel about public library, the more likely they will vote yes and trust you with their money
- Build a relationship with the politicians!!!!

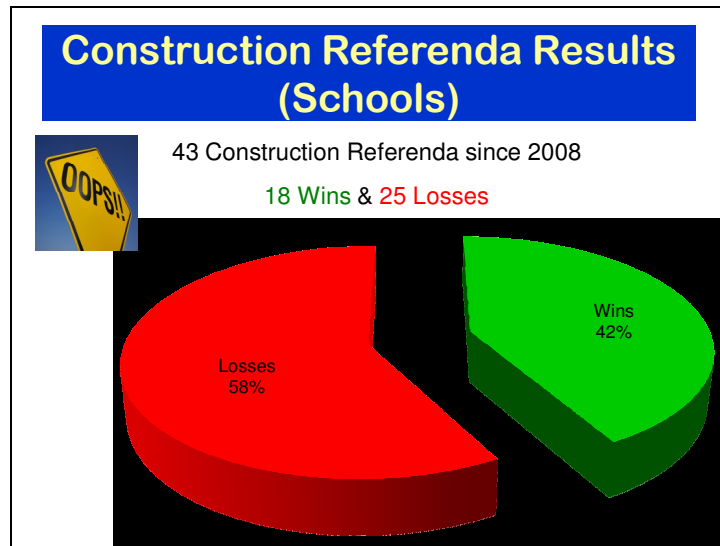


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You are going to need to use this bank of volunteers and citizens to go forward with a project; and build those relationships with politicians. Again I know that is not an area that you are necessarily comfortable but it's really important. Serve on boards whether it's the Chamber of Commerce or whatever you can do to get to know those people as individuals. And have conversations with them. Don't only call your legislator when you are angry about something in the general assembly. Have a time when you meet with them for breakfast. What are you hear? What can we do to help you? What information will be helpful? So it is a conversation that is ongoing and not just when you are mad about something. Those conversations become very important when you are looking at a campaign.

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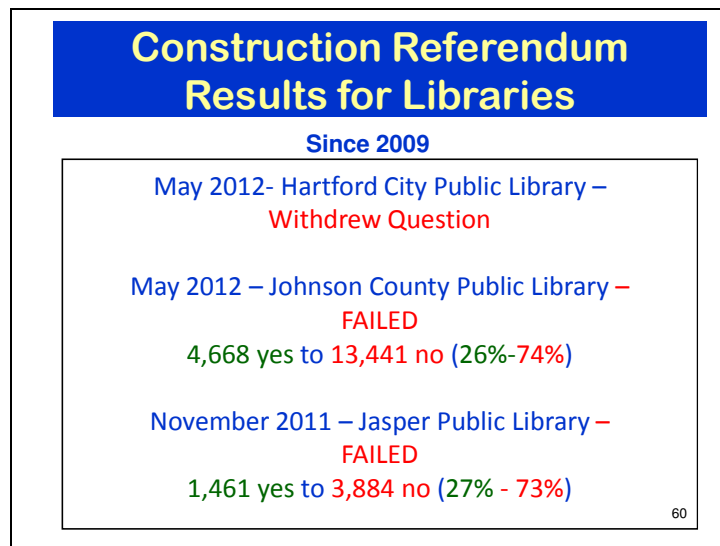
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I want to show you statistics, Indiana got referenda for projects in 2008 and these are just schools. We are at a 58% loss versus a 42% win; and that's 43 construction projects in that time period.

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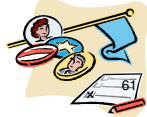


We have only had three, and one actually withdrew, referenda for libraries in that same time period. Johnson County was in May of 2012 did a referendum and they lost, 74 to 26 percent. Jasper Public Library in November of 2011 also tried and lost 73 to 27 percent. Hartford City Public Library was moving towards that direction and figured out they would not be able to get City Council approval; it didn't make sense to put something on a ballot if you couldn't get your fiscal body's approval. That's always a little bit of a Catch 22. Do you go to the fiscal body first before you open yourself up to a referendum or petition/remonstrance or wait until after. If you think about it from the fiscal body's perspective, they do not want to take any political risk. They look at this as taking political risk if there is a chance the tax payer's are going to vote it down. I don't think most will act on your request until after a petition/remonstrance or referendum. That doesn't mean you don't have conversations with them. It is really important to individual conversations with your town council members or whatever the approving body. On an individual basis make sure they know what is going on, make sure that you structure this as Belvia was telling you and there is no tax increase, make sure they know those things. So you have those conversations on an individual basis even if you aren't going to that board as a whole to ask them for approval. This is a hard process to go through, to get taxpayers to raise their hand, "Yes, raise my taxes."

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Upcoming Elections							
2014		2015		2016		2017	
May 2014	Nov 2014	May 2015	Nov 2015	May 2016	Nov 2016	May 2017	Nov 2017
Primary	General	Primary	General	Primary	General	None	None
State Auditor & Treasurer	State Auditor & Treasurer	Municipal Elections	Municipal Elections	Governor, US & State	Governor, US & State		
US & State Reps. & Senators	US & State Reps. & Senators	* Check with your Clerk	*Check with your Clerk	Reps. & Senators & County Officials	Reps. & Senators & County Officials		
No Scheduled Elections in 2017							




One of the important things is when are the elections. This is an area where we never used to pay attention. Every fourth year there are no elections; that was this year and it will be again in 2017. If you decide you want to hold an election during that year then the library will have to pay for it and politically that doesn't usually go very well. That becomes really important if you have debt coming off in 2018 and you want to issue bonds in 2017, when you hold the election becomes important. I given you some of these upcoming years. In 2015 we only have municipal elections. If you are library that is not coterminous within a municipality, you have some people in the district who will not be voting; you have to pay for the election for those polling places that otherwise would not be voting.

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Board's Role in the Planning Process

- Political eyes and ears of the Library
- Strategically plan & participate in individual meetings with the centers of influence
- Honest disagreement and voicing concerns in a productive, respectful manner
- Identification of campaign organizers
- Identify the right project



What's the board's role in the planning process? And the board's role is very important. They should be out in the community talking to people that you might not otherwise talk to i.e. business owners, healthcare area, the ministers, all different people, the farmer. And they should be out there being your political eyes and ears. What's happening? How likely is it for people to support this? We all feel strongly about our projects and especially about libraries, sometimes you need your board to figure out realistically what can actually get done. They should help you strategically plan those meetings with the people in your community; we call them centers of influence. So who in your community do you need to be meeting with and maybe some board members go with you to those meetings; it shouldn't be the director out there all alone. Honest disagreement if a board more members are uncomfortable to address that to you in an appropriate way. What you don't want is where your board votes on a resolution and you find out a board member has concerns and therefore going to vote 'no.' That's part of their role to honestly ask questions in a productive way.

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Slide 63

The Project

The Right Project

At the Right Time

With the Right Process

Promoted by the Right People

Not necessarily the BEST Project but one that can WIN!!

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And they (library board) also help to identify the right project. It's the right project at the right time with the right process voted (promoted) by the right people. You can have the greatest project in the world. I will use my example of a brand new library getting rid of 1955 library that is horribly outdated. You may think it absolutely perfect project. Politically the mayor is trying to work on downtown and where you want to put your new project is on the outskirts of town. It's not the right project. You have to go to the taxpayers and ask for approval and the fact that the mayor is against you is not a good way to start. So sometimes you have to compromise on what you think is the perfect project to make sure you get the right project.

Question from audience: Jane responds she will get to that in a minute. Sometimes it is hard to know where to start.

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Petition/Remonstrance Race vs. Referendum	
<ul style="list-style-type: none">• Petition - Remonstrance Race:<ul style="list-style-type: none">– Chance of winning– Vote is public– Opposition has to get signatures too– Divisive– Not outside the Tax Caps	<ul style="list-style-type: none">• Referendum:<ul style="list-style-type: none">– Vote is private– Less effort for Opposition– Fewer community scars– Outside the Tax Caps (therefore more equitable)

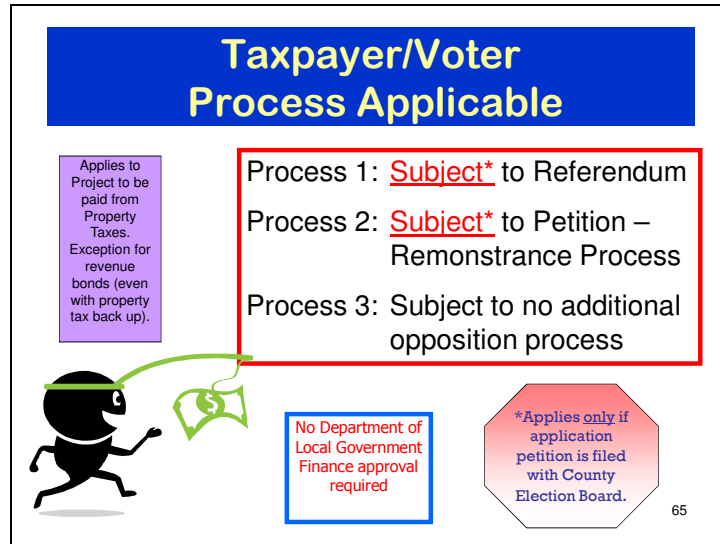
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I want to show you the difference between Petition/Remonstrance and the Referendum. With Petition/Remonstrance you're circulating a petition in favor of a project, at the same time the opposition is circulating a remonstrance against. So it's a campaign of petitions. It's a 30 day period and whoever gets the most validated signatures of taxpayers or voters wins. This is a very public process. Your chances of winning are probably better than referendum because the vote is public. People who go in the polling booth tend to vote their pocketbook. If they have to look at you, vote "no", sign on a petition, everyone will see they voted against the library. That may be something that would sway them. The opposition has to get signatures too. It is very easy in a referendum for the opposition to put in a few things in the newspaper. People are not likely going to raise their taxes anyway. In this way they have to actually carry petitions, get signatures against your project. They need a lot of people. It can tear communities apart. If you have been in a community that has gone through the process, it is not pleasant. You have Thanksgiving dinner with people who voted on both sides of the issue.

The debt is not outside the caps. You could go through all the pain of the petition/remonstrance and all those things that Belvia talked about are still going to apply to that debt; it still has to fit within the tax caps. Referendums do not. It's the only way in our Constitution to get a debt service levy that is outside the caps is to have it on an election ballot and you actually win. The vote is private so you probably have less chance of succeeding. The opposition puts in less effort; there is less community scars perhaps.


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Now back to the question that was raised in the back. There are three types of processes for opposition. Are you subject to petition/remonstrance? Are you subject to referendum? Or is your project small enough that it doesn't have to go through or even qualify for either of those two processes? That is there is no taxpayer opposition possible except to come to the library board or other fiscal body. That's the only way they could stop it besides a lawsuit.

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Pit stop for the
Legal Process

Is it a Controlled Project?

- Project funded by bonds or a lease and will cost more than the lesser of:
 - (i) \$2,000,000 or
 - (ii) 1% of total gross assessed valuation (if at least \$1,000,000)

Example: Library's gross assessed value is \$150,000,000 = Trigger for Controlled Project is \$1,500,000

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So the first question is “Are you a controlled project?” And this is different than “control” with regard to your budget levies and other things. This is a totally different definition. It says, will the project be funded with bonds or leases? In other words, are you borrowing money? And the total project costs, Belvia talked about that, the whole ball of wax. Is it less than \$2,000,000 or 1% of total gross assessed valuation. In a library for example that has a gross AV of \$150,000,000, and notice I said gross and not net AV, for them the trigger would be \$1,500,000 because their AV is low enough that the 1% would apply. Most libraries the question is the project \$2,000,000 or more. If you are more than \$2,000,000 then you are looking at either Petition/Remonstrance or Referendum. If you are \$2,000,000 or less there is voter taxpayer opposition. Does that answer your question? Okay.

Another question from audience

Let me ask the question in a different way. My Danville example is good. If you have some items you would need to do regardless... buying some real estate because some point in the future you may need it; buying some real estate in which you are going to do a parking lot, you could argue that it is a separate project and therefore you wouldn't include those, that it would be a separate.

If it's paying an architect to do the design for the new building, you're paying it out of cash up front, you would need to count that toward the project's total cost. And that would include also, it's not that you fronted the money but you plan on using some of your cash to pay for some of the project.

It's total project cost. It's not total borrowed amount.

So \$2,000,000 is the bogey number. That's the number most easily used. I just have the footnote there (on slide) because there are some districts with small enough AV that you have to be careful of that issue.

Again \$2,000,000 or less no taxpayer voter petition. And if you have been paying attention there are a whole lot of Indiana school projects magically for \$2,000,000. If your project total cost is over \$2,000,000 then you got to go on and look at a different process.

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Legislative Change

- Donation or Gifts don't count toward **TOTAL COST** when determining if it is a **"Controlled Project"** and which legal process applies
- **Example** – Grant of \$500,000 and \$2,000,000 Bond is a non-Controlled Project

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The change the legislature gave this last year is donations and gifts, grants, things like that, don't count toward your total cost. That's a really good thing, before it did. So even though you weren't charging your taxpayers for these dollars, it was a gift, you still had to count it toward that discussion of what is total cost of project. That's a good change. Belvia is talking: This goes back to the question just asked. There's a distinction between cash on hand and gift. Money they have as cash on hand has already been levied by property tax that counts toward the \$2,000,000 limit. And gifts do not count toward it. Jane replies, "Correct."


Basically cash that you spend counts toward the project. A grant or a gift you spend would not count toward that total.

Petition-Remonstrance Process

P/R Race = PROJECT > than \$2 Million but < Amount that triggers Referendum

Same procedure – Race only applies if application petition filed with 100 certified taxpayer or voter signatures

Even if you win the Race – still subject to Circuit Breaker Caps



So we are over \$2,000,000, something less than what's the trigger for referendum, you are in the petition/remonstrance world. They say you are subject to petition/remonstrance because you hold a public hearing, you'll set maximums, and you don't get a taxpayer petition against you saying we want the petition/remonstrance race to apply, you don't have to run the race. To say it's SUBJECT to petition/remonstrance, doesn't mean you automatically have to do it. Now we remember though it's pretty easy to get a hundred signatures. So if you have one or two people opposed to your project, the chances are pretty good that he or she can get a hundred signatures on this petition, file it with your auditor or county clerk saying, "We want the petition/remonstrance to apply." It's important to remember it's subject to petition/remonstrance, and same thing applies to referendum. You don't automatically put a project on the ballot. It's only if the taxpayer petition gets filed and we want to have that on the ballot.

[can't hear question from audience] Jane responds, "Hm, hm a petition for petition." One hundred taxpayers file that they want the petition/remonstrance to apply and then you go through the process to circulate petition and remonstrance. Remember its within the caps if you go through petition/remonstrance.

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Referendum

- Referendum Process applies if
 - Controlled Project defined as . . .

Controlled Project with TOTAL costs > the lesser of \$12,000,000 or 1% of total gross A.V

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What's the trigger for referendum? And in the library world, there is one test, which is kind of nice. It is the lesser of \$12,000,000 or 1% of total gross AV. So if your brand new library costs \$14,000,000, you have to open yourself up to the possibility that the taxpayers will file a petition and say we want this on the ballot. There are some communities because of circuit breaker losses are so great they couldn't do this project unless it was outside the caps. And in that scenario you may circulate that petition yourself. That has happened a lot in the school world; in Lake County if you are in certain districts, have a ton of circuit breaker losses already, they circulate that petition so the ballot question can be approved by the taxpayer and therefore can be outside the caps.

Hamilton Southeastern, no body filed a petition at that school corporation saying we want you to put this on the ballot; they did that themselves and same thing with Noblesville. It happens quite often if you a lot of circuit breaker loss, you just can't afford it any other way. With libraries in many cases you try to wrap around existing debt, possible that you won't make circuit breaker loss any worse and so you may not have that same consideration. And as we said that is one of the questions you are going to ask, "What is my circuit breaker loss?" and "What will this project do to it?" If your answer is, "It will make it much, much worse." You may be looking at opening yourself up to referendum, to putting it on your ballot yourself.

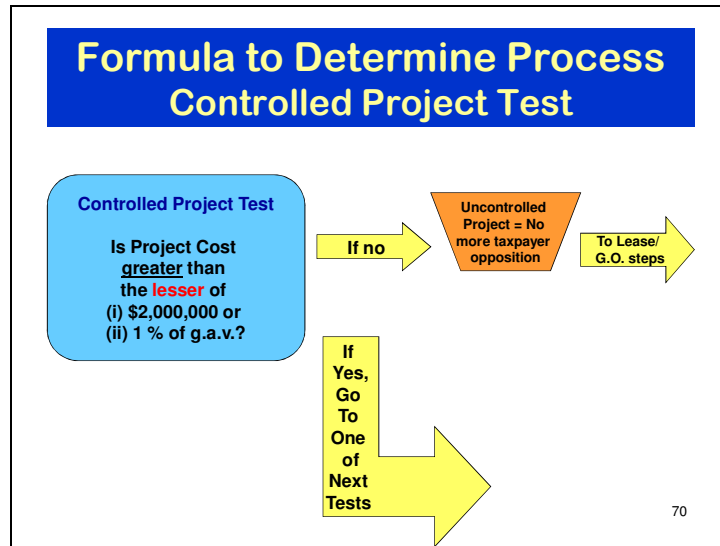
Remember the 1% total gross AV? Jasper Library is one I mentioned who had gone through a referendum process. I think their gross AV was something like \$600,000,000, their magic number was \$6,000,000. Their project was \$6,000,000, therefore it was subject to referendum even though it didn't hit the \$12,000,000 mark. So it's the lesser of \$12,000,000 or 1% of total gross AV.

You cannot artificially divide a project. I know some of you people are creative. We will get a call from someone and they will say we want to do the west wing of the library as a \$2,000,000 project and the east wing is \$2,000,000 project. We are going to do it all at

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the same time under one contract, can we do that? The answer is “no.” You cannot artificially divide a project to avoid petition/remonstrance and referendum. However, you could do a \$2,000,000 project to fix the roof and come back two or three years later and do a \$2,000,000 HVAC project. It’s bid separately, contracted separately, they don’t have to be done [before you do the other]; you don’t have to do the roof in order to do the HVAC. So if you can factually demonstrate that they are separate, that you are not artificially dividing them, then you can do them as uncontrolled projects.

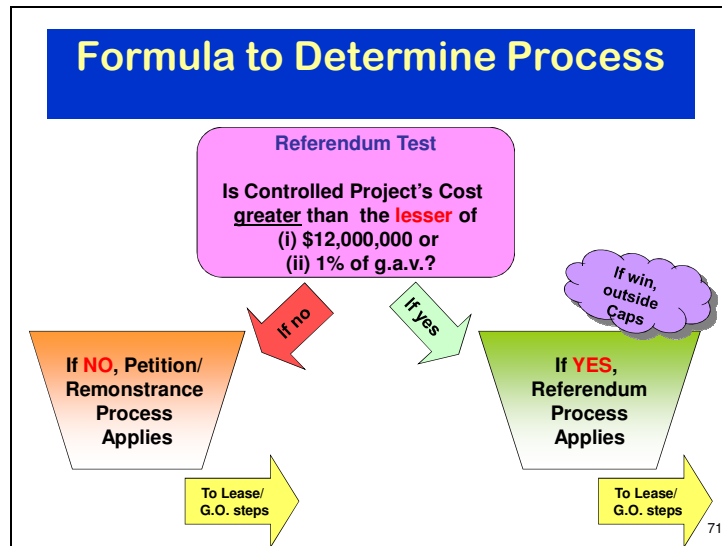
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So we talked about project where the cost is greater than the lesser of \$2,000,000, if the answer is “no,” then you can move on to the GO (general obligation) or lease steps we talked about. If the answer is “yes” then you have to decide on a petition/remonstrance or referendum.

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If a project is greater than \$12,000,000 or 1% (of gross AV) then you are looking at a referendum process. If it is less than that number, but more than \$2,000,000 then you are looking at petition/remonstrance.

Slide 72

Cheat Sheet on Process

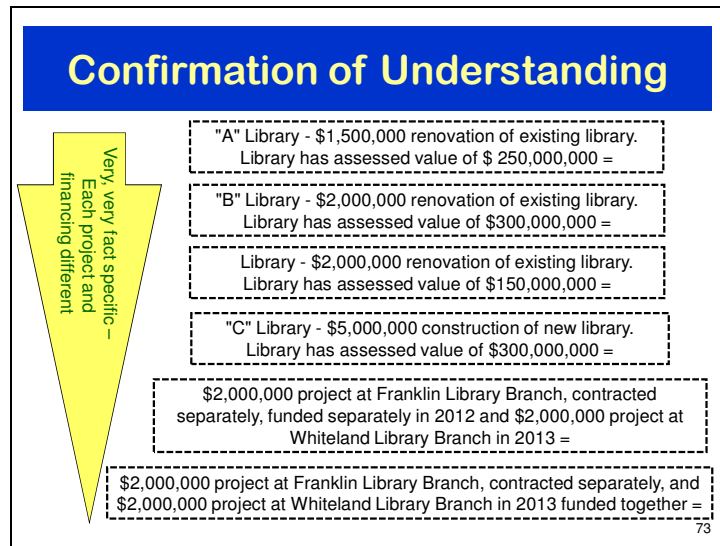
Can now opt into Referendum

Type of Building	No Formal Power to Oppose	Petition-Remonstrance Race	Referendum
Governmental (non-academic space) i.e. Library	Not a Controlled Project if \$2,000,000* or less	More than \$2,000,000 but less than or equal to the lesser of 1% of assessed valuation or \$12,000,000	More than the lesser of 1% of assessed valuation or \$12,000,000

* If AV is less than \$200,000,000 then use 1% of av as limit
 • Limits are expressed as total project costs (hard and soft construction, costs of issuance, capitalized interest and interest earnings).

This is a little cheat sheet that might help. No formal opposition is the second column. If you are \$2,000,000 or less, it's petition/remonstrance. And referendum in the last column.

Slide 73



Now for a test. Library "A" is that a controlled project or not? Do you have to open yourself up to any kind of opposition? "No." Jane replies, "Correct." Because 1% is \$2.5 and therefore \$2,000,000 would be your magic number. And in our example our project is less than that.

Library "B": All right, a \$2,000,000 project and the assessed value is \$300,000,000. Is this controlled, do you have to open yourself up to petition/remonstrance or not? "No." Jane replies, "Correct." Because again 1% of gross AV would be \$3,000,000 and project is at \$2,000,000. We're golden

Library "C": How about \$2,000,000 renovation project and you AV is \$1,500,000? "Yes." Jane replies, "Correct." Anything \$1,500,000 or over \$1,500,000 would be subject to Petition/Remonstrance or perhaps a Referendum. There is a point at which there is no petition/remonstrance if you think through it. This might be one of those examples. Because more than a \$1,500,000 controlled you have to go through some kind of opposition but the referendum test is 1% which is \$1,500,000. So its possible that you could be a district with no petition/remonstrance option at all, it's non-controlled or you are looking at referendum.

Library "C" \$5,000,000 construction of a new library and your AV is \$300,000,000. Is that petition/remonstrance or referendum? Remember that test is 1% or \$12,000,000. 1% of \$300,000,000 is \$3,000,000 and therefore you are looking at a referendum. \$2,000,000 project at my Franklin Library Branch, funded separately in 2012 and a \$2,000,000 project at my Whiteland Library Branch in 2013. Those both can be done as non-controlled projects. What happens if I fund them both together? Do you think that is possible? Jane replies, "Maybe." If I contract them and its different locations and I can demonstrate they are different projects and funding them together for savings would you feel comfortable going ahead and not making that controlled? Schools do it all the time. The DLGF, though they haven't taken a position, historically they have looked at building sites as a factor on separate projects. So to the extent that a branch is in one town and other branch in another town, you can do one project and never do the other project, they have been comfortable that this is two separate projects. We typically have financial adviser give us findings that says there are savings funding it together. It could

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be funded separately with a separate bond process that adds cost to taxpayers. And to date we have been able to do that.

[Comment from audience?] Jane says, "That happens, it's very painful and let me give you the scenario." This happened not too long ago. Let's say you go through process and it's a \$5,000,000 project, put yourself through the petition remonstrance and you win that battle. And you are in the midst of construction and you find a whole bunch of asbestos in the building you didn't know about. And on top of that you have \$500,000 LIRF money sitting there you could put towards this project but you did not intend to. That is a very difficult situation to be in because if you go up over the amount you originally were authorized, it could be a not valid debt service levy anymore. What we typically would do is try to work with you to find projects that could be done separately. You pull out landscaping and do that a couple of years down the road. May be you can get away with not buying all the technology you need today. Take your LIRF money and sometime down the road and get those kind of things. And take the bond proceeds to take out the asbestos and fix it that way. It is not a good situation to be in. It is important to make sure you have good estimates from your architect. That is something we would work with the team.

Slide 74

Options to Discuss

- Multiple projects over time?
- Leases vs. general obligation bonds?
- Referendum vs. Petition-Remonstrance?
- Small projects with no taxpayer opposition?
- Short term plan vs. long term plan? (i.e. what if you lose?)

FACTORS:
Project & Financial need, construction efficiency, estimated cost, logistics & **POLITICS!!**

Maybe ideally, the best thing you can do is this larger project subject to Petition/Remonstrance. And so you go through those steps and it turns out you lose. You may want to have in the back of your mind to come back in a year or so with \$2,000,000 to keep that roof going or to keep the windows in check. Especially if you have a situation where your debt is going to roll off, Belvia talked about how you don't want to let that drop. You may do a short term kind of borrowing \$2,000,000 or less to buy you two or three more years to when you can come back to the community with your larger issue again. Here's ideally what we want to do but let's have a backup plan if it doesn't go the way we like.

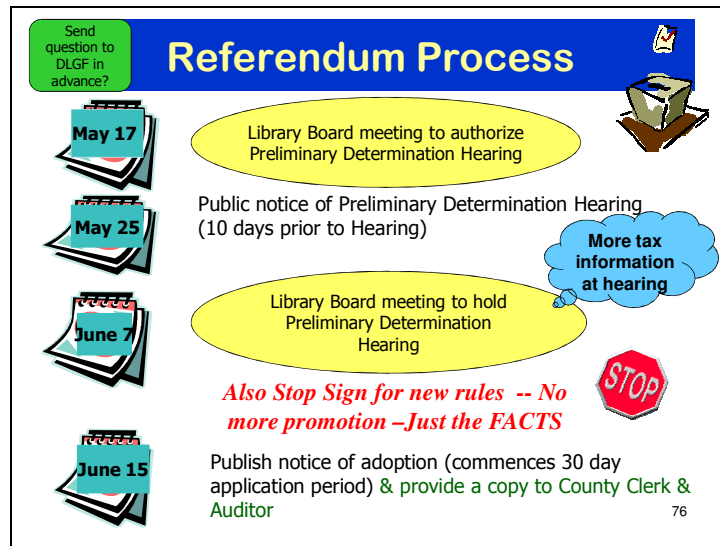
Slide 75



THE REFERENDUM ELECTION

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Slide 76



Steps for the Referendum election: The board meets; they hold what's called a preliminary determination hearing; at that hearing a resolution is adopted that has all kinds of maximums, maximum term, and maximum dollar, maximum tax rate. There's a notice that gets put in the paper, a 10 day notice and they actually hold the hearing itself. Lots of tax information there. Hearing also has another significance which we are going to talk about. And that's that there are special rules that kick in at that point on what the library can and cannot do. And there's a notice that goes in the newspaper. The publication of that notice of adoption starts the 30 day period where voters or taxpayers can file the petition that they want the project on the ballot.

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Slide 77

The Public Question

"Shall Johnson County Public Library issue bonds to finance the construction of a new library building in Franklin, Indiana and for the renovation of the existing Franklin and White River buildings (the "Project"), which Project is estimated to cost not more than **\$29,955,000** and is estimated to increase the property tax rate for debt service by a maximum of **\$0.0426** per \$100 assessed value?"

77

So what does the public questions look like? Here's one from Johnson County. Quite honestly, unless you were involved it looks like gobbledygook.

[Jane reads slide] "Shall Johnson County Public Library issue bonds to finance the construction of a new library building in Franklin, Indiana and for the renovation of the existing Franklin and White River buildings (the "Project"), which Project is estimated to cost not more than **\$29,955,000** and is estimated to increase the property tax rate for debt service by a maximum of **\$0.0426** per \$100 assessed value?"

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The Public Question

"Shall Lebanon Community Schools enter into a lease to finance the renovation of and improvements to Lebanon High School, Lebanon Middle School, Central Elementary School, Harney Elementary School, Hattie B. Stokes Elementary School, Perry-Worth Elementary School, the Service Center, the Transportation Center and the Administration Center (the "Project"), which Project is estimated to cost not more than \$40,000,000 and is estimated to increase the property tax rate for debt service by a maximum of \$0.6624 per \$100 of assessed value?"

Takes care of building needs for 25 years

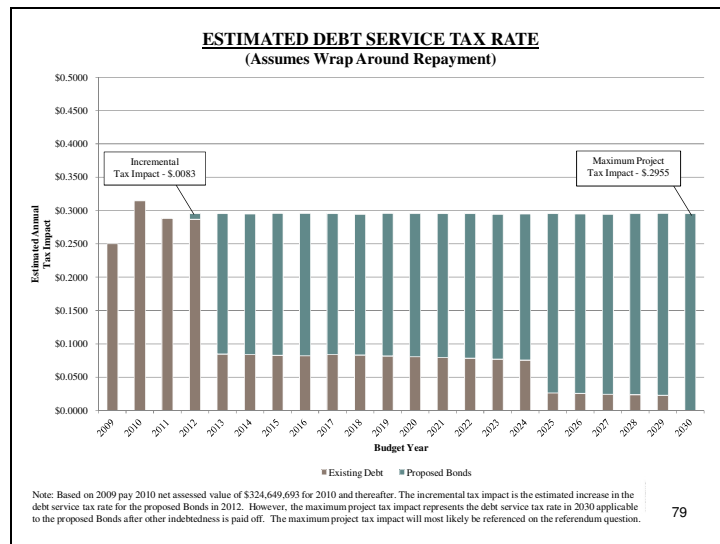
After other debt repaid, 10 cent impact

Please **VOTE YES** to support our kids & community

78

Here is an example from a school and I wanted to show this to you. You can see how complicated it can get. So part of the job of the campaign committee is to explain what this question really means. This is going to take care of our facility needs for the next 30 years. And by the way it's not going to increase your taxes because we have other debt coming off as we are putting on this new debt. Please support our community.

Slide 79





Belvia talked about this piece, but we will skip for now because we are running out of time.

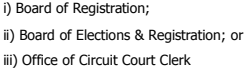
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Slide 80


Application Petition Period


 **June 17** Application petition filed with County Voter Registration Office


 If no petition filed, move on to Lease or GO steps



- i) Board of Registration;
- ii) Board of Elections & Registration; or
- iii) Office of Circuit Court Clerk



 **June 26** County Voter Registration Office/Auditor certify **100** taxpayer or voter signatures on petition (*maximum of 35 business days – unless within 35 days of election - Only needs to certify 125*)


 **June 27** Library delivers notice, certified application petition and request for public question to Voter Registration Board (including requested date of election, if applicable)


80


Once you get the petition application filed, either the clerk or auditor will count votes. If you get your hundred taxpayer votes for the petition then you have to go to the election.


Slide 81

DLGF Approval of Question

 **June 27** Clerk, on behalf of Election Board, requests DLGF Approval

 **July 18** DLGF approves or modifies question within 10 days

 **July 28** County Election Board approves public question and sends to Auditor to certify FINAL public question




81

The question itself is approved by the DLGF that is not necessarily an easy process. So oftentimes I recommend our clients submit question to DLGF for preliminary approval in advance before you even put it out to the public. You don't want to go the public hearing and tell everyone it's going to be 40 cents and the DLGF does their calculation and it's 42 cents. And there is some grayness here as Belvia can attest. So oftentimes that is one of the things we recommend. The DLGF can approve or modify your question and eventually the county election board approves it and puts it on the ballot.


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The Election






July 29 County Auditor certifies public question to County Election Board (must be certified by **August 1** to be on **General Election ballot**)



Mid – Sept. County Election Board schedules election



Nov 8 **Election** – If win, proceed to lease or g.o. proceedings; if lose, wait a year on substantially the same project *(If no general, municipal, primary election in the year – Special election allowed but only on typical May & November dates)*

82

In order to get an election in November all that process has to happen by August 1. If you are in May, it has to happen 75 days before the election. So you are talking about a February time frame. So it's important to start that public hearing back in November/December, that early in order to get something on the ballot for May.

Slide 83

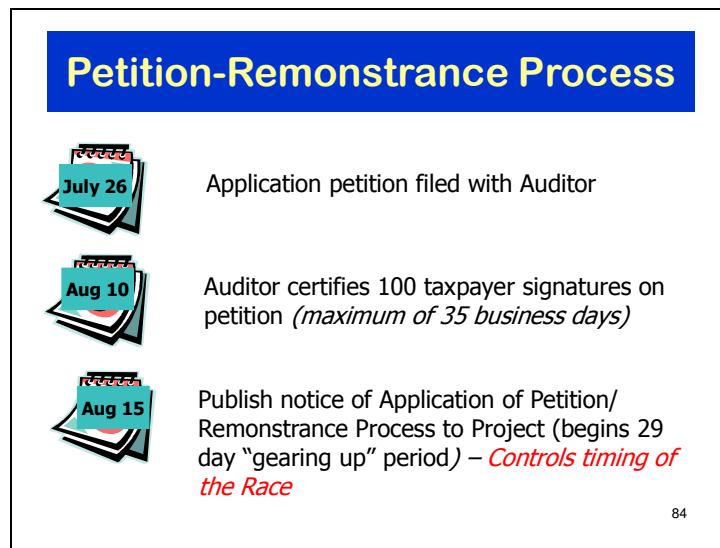


THE PETITION – REMONSTRANCE RACE

83

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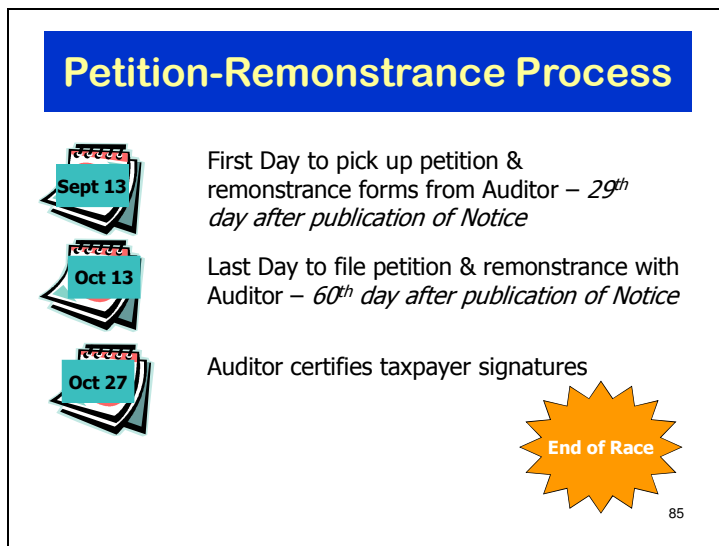
Slide 84



Petition/remonstrance is very similar process. You are still talking about the same kind of public hearing and the auditor certifies the 100 taxpayer signatures on the petition. Then if you get that you publish notice in community that we are going petition/remonstrance apply to this project. Here you get to control timing of the race based on when you publish that notice. So the race begins 29 days after this publication.


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Slide 85



And it ends 60 days after, so it's a 30 day period where you are circulating petitions in favor. In the end the auditor or clerk certify the signatures and whoever gets one more signature wins. It is better to win big because if you only win by one or two signature there is a good chance the opposition is going to protest something. Somebody wasn't really a voter or somebody wasn't really a taxpayer.

Slide 86



The Rules for Referendum & Petition/ Remonstrance Race

Can't **PROMOTE** using:

- **Employees** on the Clock,
- Library **Facilities** (or systems)

or

- **Library Money**
(plus some more . . .)


However, Director,
Business Manager &
Library Board Members
can **PROMOTE** any time
(as long as they don't use
Library \$)

86

What I referred to earlier, there are rules regarding what the library can do when looking at a petition/remonstrance and referendum. Once you hold that preliminary determination, the rules kick in. You cannot promote the project by using your employees while they are on the clock, by using your facilities, or by using your money. They really want this to be a campaign, petition/remonstrance, by two pieces of the community, not necessarily the library employees and the library money. However, there is an exception. The director and the library board can promote at any time as long as they are not using money. So library director can go to the Elk's Club to talk about how great this library project is and everybody should vote yes. Library board members individually can write letters to the editor; not a problem.

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Slide 87



MORE Rules for Referendum & Petition/ Remonstrance Race

Can't **PROMOTE** using:

- Person/Organization that has a contract "**to provide goods and services**" can't spend money to promote
- Attorney, architect, construction manager or financial advisor for services provided may not **spend money** to promote.

87

There are a lot of rules related to this and if it looks like you are getting to this process we would talk about these things, but organizations that you are contracted to provide goods and services cannot spend money to promote: the bank that you bank with; people who cut your grass; the entity that delivers your books back and forth between your branches. If you have a contract with any of those, they can't spend money to put towards the campaign. Your architect, your engineer, your attorney, your construction firm, your financial adviser may not spend money to promote. What was happening, construction managers were paid a whole bunch of money to buy signs because they wanted the project to go forward and the general assembly said that wasn't fair.

Slide 88


Effective Communication

Slogan and Logo are large

Message is clear, simple & concise

Campaign "brand" used on all communications

Content is picture oriented with less words

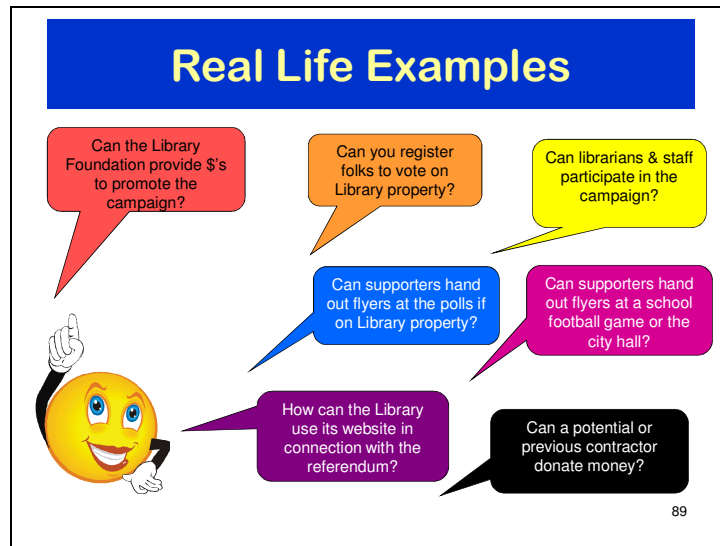


88

When you are communicating, you all know this: a lot less words, pictures and a simple message of why they should vote. Vote yes for the community, whatever your message is.

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Slide 89



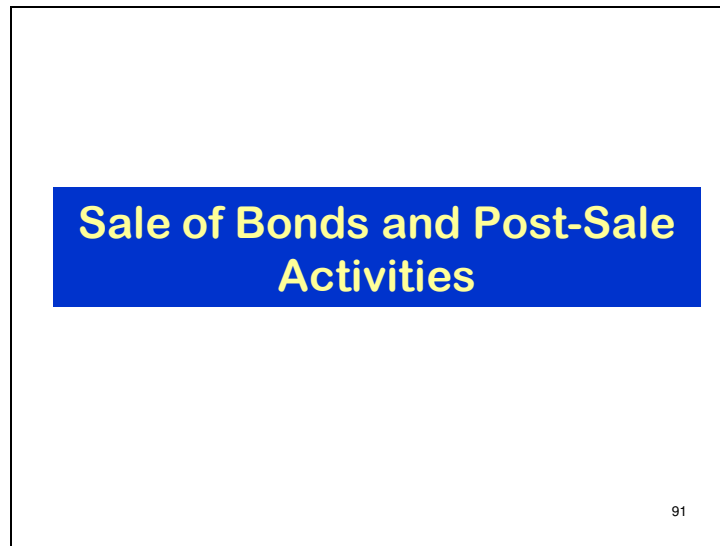
I am going to do this quickly. Can the library foundation provide money to the campaign? Probably not. First of all the library foundation uses your facilities to meet and participate. Second of all you may have 501c3 and they are restricted from using funds on campaigns. Could you register people to vote? Yes, you probably could, but I don't know that I would do it right in the referendum election. I think you are asking for trouble. Every fall you have people register to vote online on your site that is fabulous. Or if you might have a referendum in the next few years, I would suggest you start doing that. Can librarians and staff participate in the campaign? Absolutely! You just cannot do it on the clock when you are at work. You can have your staff be part of the campaign committee; they can walk door to door, hand out pamphlets, they can donate personal money. They just can't do it using the library resources.

Slide 90



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Slide 92

Marketing the Bonds

- Prepare Offering Document
- Obtain a bond rating (if applicable)
- Determine method of sale (competitive or negotiated)
- Bond Closing

92

I am going to turn it over to Belvia, "Marketing the bonds." The last phase after you have done the preliminary planning, gone through legal process, is to close on the bond so you get the money to begin your project. As a financial adviser we help shepherd you through the process and we do that by preparing an Offering Document. I have examples here of offering documents we prepare. You can see if you attended in person. There is a preliminary official statement and that is what is prepared before the bonds are sold. There are tools that provide information about the community, economic information, financial characteristics, and information specifically about the library. It also has details about the project it itself and the legal process that was used to make the bonds valid. We also look at obtaining a bond rating if applicable; that is for projects that are \$2,000,000 or larger. And the reason for obtaining a rating is there could be lower interest rates, looking at the credit worthiness of the library, so potential purchasers may look more favorable on that. There is a cost associated with getting the rating. Financial adviser looks at whether it makes sense to spend the money to go through the process as opposed to whether you make up for that rating cost in the interest that you pay. There is a breakeven; you don't want to spend money you are not going to make up. We will determine the method of sale whether competitive or negotiated. And once the bonds are sold, you get your money, and your project is underway.

Preliminary Official Statement

- Disclosure document which is a marketing tool.
- Provides potential bond purchasers with information on project, bond structure, security, legal opinion, etc.
- Provides rating agencies with information on the Library's background, history, finances, etc.
- Require for bond issues of \$1 million or greater.

93

I won't walk through this too much but just to provide the detail. This is the preliminary statement provided as pre-marketing on the bond. Has all the information including the library's background. It is required for bonds sized at \$1,000,000 or more. Bonds that are smaller than \$1,000,000 oftentimes prepare an offering circular, similar to a preliminary statement, a final official statement but has less information in it. We want to prepare information that is helpful for potential purchasers. It's not a document that is required, so we provide them with information required by potential investors. Jane's question is when as a library would you receive that preliminary official statement? It is usually a couple of weeks before the potential sale bonds. When you receive a preliminary statement or any sort of document that has information about the bond, about the library and the area you serve, you should read it! There is lot of information contained in there. It is very dense. Statement contains a lot of good information. You should pay particular attention to details included, specifically about the library. Part of the information included if you have bonds of a certain size there are post issuance compliance continuing disclosure. After the sale of the bonds there are certain pieces of information that bondholders, future bondholders will want to have. This information is provided on an annual basis after the bond is issued; it can be provided up to 20 years after the bond is issued. When we are in that initial phase of the preliminary statement this is information potential investors are using to make a decision on whether to buy the bond or not. We want to make sure the information contained in there is as accurate as possible. Very important to look at the information because you also sign that you reviewed carefully that it contains all the information and it's accurate for your library.

Slide 94

Competitive Bond Sale

- Competitive Bond sale may be required by State Statute – determined by Bond Counsel
- Typically sold upon 24 hours' notice
- Financial advisor coordinates sale
- Bonds awarded to underwriter with lowest net interest cost
 - Based upon interest rates and Underwriter's discount and/or premium
- Typically used for property tax supported bond issues

94

There are two different types of bond sales: competitive and negotiated. I won't walk through these. But I want to say if it is a general obligation (GO) bond they are required to be competitively bid through statute. Aside from bonds that are refunded, refinanced bonds we always negotiate those issues. Other than that I don't know that I worked on a library where we haven't done a competitive sale. I personally prefer competitive sales because you know of all the bids coming in you are getting the lowest interest rate possible and as a financial adviser that is our goal. You are getting the best deal on that day.

Slide 95

Competitive Bond Sale (Cont'd)

- Advantages
 - Assurance that bonds are sold at the lowest interest rates
 - Provides incentive for each underwriter to submit most aggressive bid
 - Open, fair process
- Disadvantages
 - May have less flexibility
 - "Risk premium" built into bonds
 - Less control over allocation of bonds

95

Slide 96

Negotiated Bond Sale

- Negotiate interest rates and fees with one underwriter
- May send Request for Proposal to several underwriter's before selecting one
- More often used for revenue supported bonds without a property tax backup ("story" bonds)
- Advantages
 - Greater incentive to engage in pre-sale marketing activities
 - More flexibility concerning timing and bond structure
 - Can ensure that bonds are available to certain investors
- Disadvantages
 - How is basis of underwriter selection determined
 - Are you getting the best deal?

96

Negotiated also has its advantages. You can work more closely with the underwriter to negotiate those rates on your behalf. The question becomes do you really get your best deal.

Slide 97

Final Official Statement

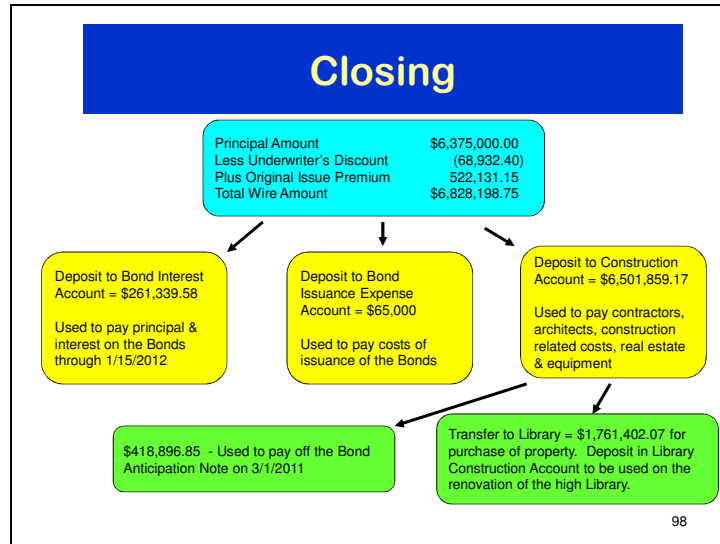
- Finalize after bond sale
- Contains final interest rates and reoffering prices
- Includes bond rating information if applicable
- Distribute to winning underwriter within 7 days of sale

97

When the bonds have been sold, there is a final offering document prepared and it has to be submitted to the winning underwriter within 7 days of sale. I forgot to mention that with a competitive sale, the winner has the lowest net interest rate. Whoever meets all the parameters outlined in the notice of intent to sell bonds is all included there.

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Slide 98



Now that everything has been sold, we are going to look at getting the money. If you working with Umbaugh you get an after sale letter that gives all the details. Jane, bond counsel for Ice, Miller puts together this great picture where all the money goes not only to you, but the bank who is depositing the money into different accounts. This shows the different pockets of money and where they are going. In this example the total amount of money receive is about \$6.8 million dollars. In this instance, there are three different buckets where the money will be deposited. There is an interest account that pays for capitalized interest during the construction period. Issuance expense account pays for the cost of all fees associated with the transactions. And the remaining dollars go into the construction account. And there could be a transfer of dollars to the library. This example could be a lease or a GO.

Slide 99

Arbitrage/Rebate




Arbitrage = Refers to the difference between the yield on the Bonds and the interest earned by investing the proceeds

Exceptions to the Rebate Requirement:

- **Small Issuer Exception** -- \$5,000,000 or less in tax exempt borrowing annually
- **Two Year Spend Down Exception** –
 - 10% - 6 months
 - 45% - 1 year
 - 75% - 18 months
 - 100% - 2 years

If no exception met, rebate (if any) due 5 years after the closing



Arbitrage and Rebate: I will hand over to Jane to explain. Arbitrage is when you take proceeds and invest them and when you can reinvest them at more than the interest rate. If you think about it you have issued tax exempt bonds. You issue bonds at 3%. You couldn't do this today, but let's say the reinvestment is 5% and you are making 2% money. This is great and it is called arbitraging. The IRS said, "We don't like this." Generally speaking there are rules against doing that, however there are exceptions. One, if you are a smaller issuer, in the library world you are issuing less than \$5,000,000 in bonds or borrowing in a calendar year. So many of you would be in that situation, if you are, you're done. Turn the slide over. You can invest it in whatever you can get and you can keep all the investments.


If though your project is larger than that, and the library borrowed against tax anticipation warrants plus some copy machine lease that puts you over that 5 million, the next exception we would try to get you qualified for is a 2 year spend down: 10% within six months, 45% of the proceeds in a year, 75% at 18 months and 100% in two years. The IRS sees you are spending fairly diligently, you have an actual project, and you are not just investing for year after year. So they have put an exception in the code for that. So between those two exceptions, most libraries would be able to qualify to be able to keep all of the earnings they might make on their proceeds. If for any reason you don't meet either one those, it is not the end of the world. You have to do what is called rebate or resend earnings back to the IRS. You have to do a calculation if you invested above the yield on the bond and if so, the dollar amount has to be sent back to the IRS within your 5 year anniversary and that is called rebate. That is what arbitrage and rebate is.

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Slide 100

As you look at your Dashboard you must
always be looking **AHEAD** . . .
Where are you going? . . .

LEADERSHIP



100

We put this last slide in here, because goes refers back to knowing where the rocks are. That is a lot of what leadership is too, knowing where the rocks are to get you to your brand new library or renovated building. And lots of the folks are watching you, the board, to help them find the rocks along the way. We hope you heard little bit today if nothing else to ask some questions, to get comfortable asking questions as you think about your project.

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Slide 101

Thank you!



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The last slide provides you some contact information. Please don't hesitate to contact any of the folks here, especially Belvia and I and Kristin is in the back of the room. Ryan is back there too and he is with Umbaugh. And we would be glad to help you in any way. If you feel we have covered some things quickly and you have questions, give us a call or drop us an email. Are there any other questions? If it is a money question I will turn it over to Belvia. We often work as a team. So don't think I have question, I am going to call Belvia and I can only ask her a dollar question. I can't ask her something else. Just ask her the question, and she say this is what I think but you really should call Kristin or Jane and they can tell you for sure. Same thing for me I take a guess at what capitalized interest is but really you should talk to Belvia and see what she recommends.

Note: all the handouts are reposted to the website
<http://www.in.gov/library/ldoworkshops.htm>